

bKash

Country: Bangladesh

Sector: Financial Services

IFC Investment: \$10 million

Access to finance is a challenge in Bangladesh, where only 40 percent of the adult population holds a bank account at a formal financial institution.¹ This is a major problem for the working poor, many of whom migrate from villages to towns, cities, and even overseas in search of work, and who have no choice but to use informal options to send money home. Some find an acquaintance willing to carry cash on the journey to their home village; others work with middlemen who charge high fees.

But today around 23 million people rely on bKash, a leading mobile financial services company, to safely send money over their mobile phones—and even to save money and to pay for products and services. bKash transactions are not only secure but are also simple to conduct and accounted for in the formal financial system. The company was started by two Bangladeshi-American tech entrepreneurs and a local bank. They wanted to leverage mobile phones—which are ubiquitous in Bangladesh—to provide a broad array of financial services to millions of unbanked Bangladeshis, including those in rural areas.

bKash is now used by all types of businesses from the self-employed rickshaw pullers sending money to their families, to small business owners paying workers' wages directly rather than through intermediaries, to mom-and-pop shops paying bills remotely and eliminating the need to travel to pay their suppliers in person. The average transaction size is \$16.

bKash was established in 2010 as a joint venture between Money in Motion LLC—an American company that invests in start-ups that advance financial inclusion—and BRAC Bank, a commercial bank in Bangladesh focused on small



and medium enterprises. It has played a major role in building Bangladesh's mobile financial services industry from scratch and is the country's leading player, accounting for 75 percent of the market.² bKash operates as a BRAC Bank subsidiary and now counts the International Finance Corporation (IFC) and the Bill and Melinda Gates Foundation as minority shareholders.

110 million transactions
are conducted through
bKash every month

JOINING FORCES

bKash was launched by two brothers, Kamal and Iqbal Quadir. Mobile financial services had taken off in the Philippines, Kenya, and other emerging markets when the two Quadirs brothers decided to bring it to Bangladesh.

In need of a local partner, the Quadir brothers began to engage BRAC's founder, Fazle Hasan Abed, in 2008. Abed had a 40-year track record serving the poor with BRAC, one of the largest nongovernmental organizations worldwide. BRAC's strong presence in Bangladesh and its well-recognized and trusted brand made it attractive as a potential partner. Discussions between the Quadirs and Abed continued over a two-year period. In 2010 they committed to establish a joint venture between Money in Motion and BRAC Bank.

A HISTORY OF ENTREPRENEURSHIP

The Quadir brothers grew up in Bangladesh and moved to the United States in the 1970s. Prior to founding bKash they had already started a number of tech-related ventures.

In 2005 bKash's CEO Kamal Quadir created CellBazaar, a first-of-its-kind online classifieds company in Bangladesh that connects buyers and sellers through mobile phones. Within a few years CellBazaar gained four million users and was acquired by the global telecom company Telenor. Iqbal Quadir, Kamal's older brother, had worked in investment banking before co-founding the mobile telephone company Grameenphone in the late 1990s, together with Telenor and Grameen Bank. He later launched Emergence Energy to support small-scale neighborhood plants for electricity generation.

In 2009, Iqbal and Kamal Quadir together started Money in Motion. They founded the company with Nick Hughes who led the launch of Africa's first major mobile financial services venture, M-PESA, in Kenya and Arun Gore, managing director of venture capital firm Grey Ghost Capital.





bKash's Value Chain

An Overview of Challenges and Solutions



Value Chain

Product Development	Distribution	Marketing & Sales	Customer Service
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Challenges in Providing Mobile Financial Services

<ul style="list-style-type: none"> • Customers are averse to trying new services 	<ul style="list-style-type: none"> • Building a distribution network is costly, but essential • Customers are geographically dispersed 	<ul style="list-style-type: none"> • People lack confidence in using new technology • Old habits are hard to change • Low literacy levels • Limited purchasing power 	<ul style="list-style-type: none"> • People fear making mistakes during transactions and losing money • Customers lose faith if they cannot deposit or withdraw cash
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bKash's Solutions

<ul style="list-style-type: none"> • Sequences introduction of mobile financial services from simple to more complex • Offers services that low-income customers are most likely to use 	<ul style="list-style-type: none"> • Builds multiple distribution partnerships for dense coverage • Uses existing distribution infrastructure 	<ul style="list-style-type: none"> • Addresses existing pain points which helps customers recognize the value of mobile financial services • Simplifies the process to set-up a bKash account • Educates customers about mobile financial services • Offers low-cost transaction fees 	<ul style="list-style-type: none"> • Provides in-person guidance on transactions through agents • Makes mini account statements available through mobile phones • Sends virtual receipts after transactions have been completed • Works with distribution partners to maintain liquidity in system
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Their timing was favorable, as a government initiative in Bangladesh to encourage the poor to set up bank accounts with as little as \$0.12 had been facing challenges due to the cost of conventional banking, unavailability of banks where the poor lived, and the formality of bank transactions. The government was looking for alternatives to expand financial services to the low-income segment and mobile financial services emerged as a viable option.

In 2010 Bangladesh's government began to develop regulations to guide the mobile financial services industry and decided that banks, with the oversight of the central bank, should be the lead partner in any mobile financial services venture. To comply with this regulation, Bangladesh Bank, the country's central bank, recommended that BRAC Bank establish bKash as a subsidiary, which would allow it to receive a mobile financial services license. BRAC Bank and bKash would jointly manage bKash's compliance with mobile financial regulations: "know your customer" (KYC) and anti-money laundering and combating the financing of terrorism (AML/CFT).

DIVERSE INVESTORS

To get bKash's operations off the ground, Money in Motion provided \$5 million in seed capital and Kamal Quadir became chief executive officer, building the business from scratch. The company also benefited from grant support: Under a financial inclusion initiative, the Bill and Melinda

Gates Foundation granted \$10 million in 2010 to consulting firm Shore Bank International to support bKash's development. The grant covered strategic and operational planning, distribution, and marketing.

As bKash refined its business model and expanded rapidly, it attracted equity to support further growth. In 2013 IFC took a minority stake in the company through a \$10 million equity injection. IFC aimed to advance financial inclusion in Bangladesh by investing in a business with growth potential and a strong team. The key factors for IFC's investment decision were:

- The Quadir brothers' extensive entrepreneurship experience in technology and their execution capabilities.
- The partnership with BRAC Bank.
- Bangladesh's defined regulatory guidelines for mobile financial services.

In addition to equity, IFC assisted bKash with its corporate governance, which would be critical for the company to attract private sector investors in the future. IFC also helped bKash expand its network of merchants—a variety of service locations and stores including mom-and-pop shops that accept bKash payments. In the following year, 2014, the Bill and Melinda Gates Foundation also took an equity stake in bKash.



TRANSACTIONING THROUGH bKASH

To open a bKash account, new customers need only visit a bKash agent who checks their identity papers and sets up an electronic wallet (e-wallet)³ (Figure 1). This is a virtual account linked to the customer's mobile phone number for unique identification. Customers add electronic money (e-money) to their e-wallets through remittances and salary payments.⁴ They can also give bKash agents physical cash to convert into e-money, called 'cash-in.' Remittances and cash-in are the most common ways for the unbanked to fund their e-wallets.

Per regulation, bKash initially deposited the full value of a customer's e-wallet balance in a BRAC Bank account monitored by the central bank. Because of the enormous banking support required in cash management, together with the need to diversify customer deposits, beginning in 2015 the central bank required bKash to deposit customers' money with multiple banks. To access their bKash accounts, customers dial a code on their mobile phones which generates a text menu. Customers then enter a unique personal identification number (PIN) to access their e-wallets and make transactions. They can withdraw physical cash or 'cash out' from their e-wallets at any time by going to a bKash agent's store.

For many customers, a bKash agent is the familiar face of the owner of the local grocery store. An agent's role in providing actual 'cash-in and cash-out' services was critical from the beginning, as Bangladeshis live in a predominantly cash-based economy and would lose confidence in mobile financial services if they couldn't get cash from their e-wallets on demand. Agents educate customers and provide step-by-step guidance to making transactions. In return, becoming a bKash agent is an opportunity for small entrepreneurs to earn additional revenue and increase traffic to their stores.

As per regulations for mobile financial services, bKash regularly trains agents on topics such as "know your customer", anti-money laundering and combating the financing of terrorism, and fraud management. This helps agents to keep abreast with the latest information on financial protection.

Figure 1: Steps to Opening a bKash Account

- 1 Customer visits bKash Agent
- 2 Customer fills out *Know Your Customer* form prescribed by Bangladesh's central bank, presents a photo ID and passport photos
- 3 Agent registers customer
- 4 Customer receives a text message confirming account opening information
- 5 Customer activates account by dialing *247# and then a unique 4/5-digit pin to access the e-wallet
- 6 Customer can add money to e-wallet and receive money
- 7 After 3-5 days, customer receives a text message to start using all bKash services

PATHWAY TO SCALE

bKash focused on scaling rapidly from the outset. It launched operations in July 2011 and quickly grew from two million customers in 2012 to 10 million by the end of 2013. The company made four early strategic decisions to enable its rapid growth:



DELIVER FINANCIAL SERVICES THROUGH BASIC PHONES. The low-income customers bKash targeted had basic phones and so the company built a user interface that would work on any type of phone, including the basic \$15 handsets widely used by the working poor.⁵



PARTNER WITH MOBILE NETWORK OPERATORS. bKash sought partnerships with mobile network operators in order to reach a large number of customers quickly.

Moreover, multiple partnerships would facilitate seamless transactions between customers regardless of their network. So bKash set up revenue-sharing agreements with four providers—Robi, Grameen Phone, Banglalink,



OFFER LOW-COST TRANSACTIONS. bKash's

business model was based on low fees and high volume—it charged very low transaction fees and relied on billions of small-size transactions to generate revenue. Affordable fees helped drive the adoption of mobile financial services among low-income customers (*Table 1*). Unlike some other providers, bKash didn't charge customers a fee to add money to their e-wallets. Nor did it set a minimum fee for withdrawing physical cash from an e-wallet. Instead, bKash charged customers who received a money transfer a flat fee on the amount withdrawn. Transactions fees to institutions including businesses and merchants were other sources of revenue for the company.⁸



LEVERAGE COMMERCIAL DISTRIBUTORS.

bKash built a vast agent distribution network (*Figure 2*) to serve customers who were geographically dispersed in urban, semi-urban, and rural locations. Its agents are typically small retailers such as the owners of mom-and-pop shops. They enroll customers, educate them about mobile financial services, and convert cash or other payments into e-money and vice versa as customers require.

The company began building its agent network in 2011 with the support of BRAC and Shore Bank International, selecting 5,400 bKash agents from a pool of small retailers who were BRAC micro finance customers. However, after this pilot bKash realized that it would need to explore other types of partnerships to expand its agent network.

bKash began to work with commercial distribution companies that supplied consumer goods, mobile phone airtime, and household products to the thousands of small stores that had the potential to be bKash agents.

Table 1: bKash's Fees

TYPE OF TRANSACTION	FEE
Account opening	Free
Cash-in at an agent	Free
Cash-out from an agent	1.85% flat fee
Person-to-person money transfer	BDT 5 (\$0.06)
Bill and merchant payments (fee to customer)	Free
Merchant payments (cost to merchants)	1.3% to 1.8%
Business-to-person disbursement (fee to business)	0.5% (negotiable)

It developed a commission structure that made it profitable for distributors to recruit and manage owners of small stores as bKash agents. Over time, bKash would come to work with 140 distribution companies. It would also bring on other types of partners to expand its agent network, such as the country's largest courier service that had 5,000 service locations in Bangladesh.

As confidence in bKash's services grew, the company introduced more diverse services for low-income customers

SEQUENCING SERVICES

As the first major mobile financial services provider in Bangladesh, bKash played a significant role in driving adoption of those services among low-income customers. One way bKash achieved this was by sequencing its services. This was critical because most Bangladeshis were unfamiliar with mobile finance. To get people to switch from cash to e-money, bKash would have to build public trust one service at a time.

Since there was no single recipe for introducing mobile financial services in a new market, bKash had to identify which services people needed most and then decide on the order of roll-out. The company started with the most basic service possible: person-to-person money transfer. This would help migrant workers in cities and towns in Bangladesh to send money to their families back in the villages. bKash also introduced a savings product for customers to save money in their e-wallets, paying interest rates of between 1.5 and 4 percent on account balances. This proved to be particularly attractive for unbanked and

Figure 2: bKash's Distribution Network

COMMERCIAL DISTRIBUTORS*

(Master Agents/Aggregators)

Footprint: 140 in bKash's network

Role:

- Find suitable bKash agents in their territory
- Manage agent liquidity by maintaining float**
- Deposit cash received from agents into bank account (BRAC or other banks)

Revenue Source: Earn commissions (% of customer transaction value)



RUNNERS

(Staff of Distributors)

Footprint: ~30 per distributor

Role:

- Visit agents to provide e-float/cash
- Collect cash from agents and send back to distributor

Revenue Source:

Salaried employees of distributors



AGENTS

(Small Shop Owners)

Footprint: 120,000 in bKash's network

Role:

- Register customers
- Initiate opening e-wallets
- Educate customers
- Collect cash from and provide cash to customers***

Revenue Source: Earn commissions (% of customer transaction value)

*Serve several different companies in the FMCG and telecoms industries

** See footnote 8 for definition of float

*** If agents run out of e-float, they cannot take any cash deposits from customers. Similarly, agents need cash on hand so customers can withdraw from their e-wallets

low-income customers, as for many it was their first formal opportunity to save and earn interest. The company then expanded into more advanced types of services (Figure 3).

After low-income customers gained confidence in bKash's money transfer service, the company introduced mobile phone airtime purchases, which save people a trip to a store to buy an airtime card.⁹ Within a year of that service's introduction, over 10 percent of all mobile phone airtime purchases in Bangladesh were made through bKash e-wallets.

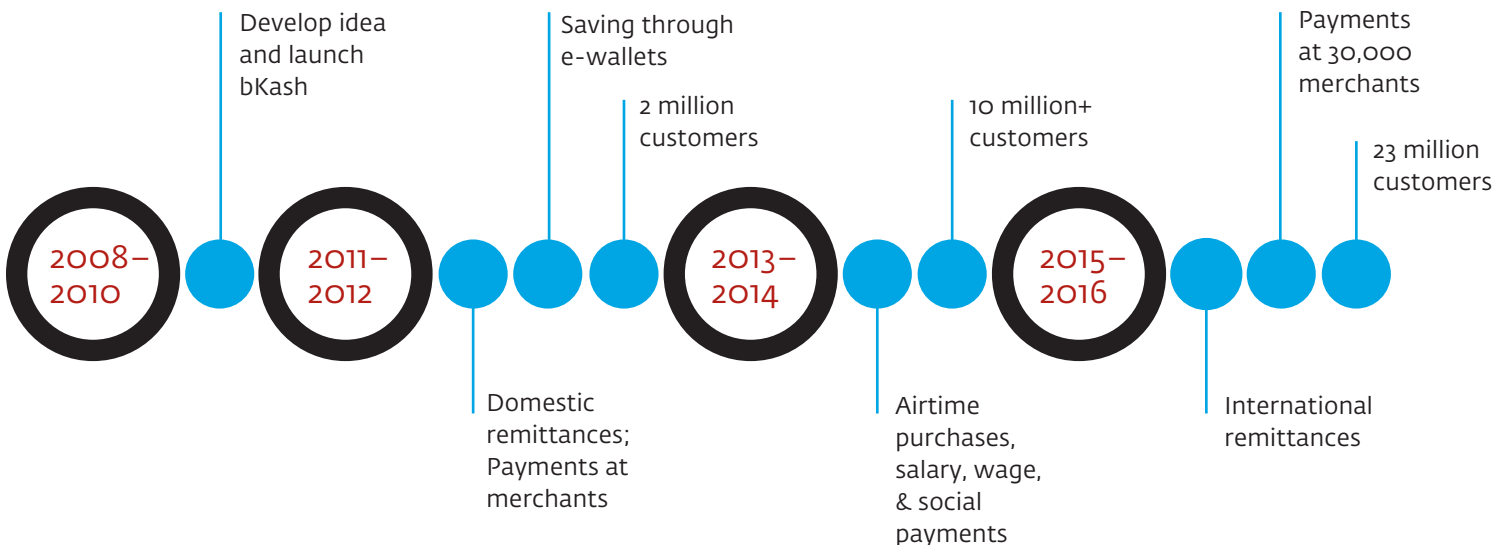
By its third year in operation, bKash introduced international remittances through BRAC Bank's partner banks in the United Kingdom and the United Arab Emirates. Bangladeshi migrants in these countries could use banks to send money to family and friends back home who would be able to receive the money in their bKash e-wallets. The following year, bKash expanded the reach of its international remittance service, partnering with MasterCard and Western Union, which had a presence in 200 countries. Now the large Bangladeshi expatriate market, estimated at 10 million people worldwide, can

send money instantly to their family members' bKash accounts in Bangladesh.

As confidence in bKash's services grew, the company introduced more diverse services targeted at low-income customers. These included collection of deposits for savings accounts with microfinance institutions, payment of micro loans, and disbursement of aid from donor agencies.

By 2014 bKash had set its sights on making mobile payments the norm for purchases of products and services in Bangladesh. This involved getting merchants such as restaurants, supermarkets, hotels, hospitals, and retail stores—including the smallest mom-and-pop shops—to accept bKash payments in lieu of cash or credit cards. As of 2016 people could use bKash at 30,000 merchants in major cities, approximately three times the number of shops that accept credit cards in the country. Small shops found bKash helpful because it allowed them to avoid holding large amounts of cash which made them vulnerable to robberies. Over time, bKash believes the number of merchants that accept bKash payments in small towns and villages will grow.

Figure 3: Key Milestones in bKash's History



SOCIAL PAYMENTS

bKash facilitates disbursement of various types of financial grants to targeted recipients on behalf of nongovernmental organizations and other institutions. This reduces the time between disbursement and receipt of aid money. This service has been especially helpful during emergencies and natural disasters. For example, Help Age International Bangladesh used bKash to transfer money to senior citizens who used the organization's health, emergency, and financial services. Another organization, Plan Bangladesh, transferred cash-for-work and livelihood grants to nearly 15,000 households using bKash. Similarly, Oxfam transferred money via bKash to over 3,300 households in Dhaka for humanitarian relief after a flood. The DFID and AusAID-funded Char Livelihood Program used bKash to reach 26,000 people in extreme poverty in remote islands with a \$6 stipend per month for over four years.

BUILDING CUSTOMER CONFIDENCE

Sequencing the introduction of services and pricing them affordably were critical to getting unbanked individuals in Bangladesh to adopt mobile financial services. Just as important was building the confidence of the unbanked in conducting financial transactions through mobile phones. This entailed helping people to cultivate new habits. The unbanked would need to stop storing money at home or paying middlemen high fees to transfer their money, and instead learn to save and use e-money in a secure digital system.

bKash knew such new habits would take time to develop, but could be encouraged through education and hand-holding. So the company rolled out a large-scale awareness campaign about mobile financial services. Mass advertising along with street plays, short documentaries, and interactive games educated potential customers about the benefits of such services and how to conduct transactions. These broad-based efforts were supplemented with in-person, step-by-step transaction guidance by bKash's network of 120,000 agents.

The company also added features to its user interface to make the process of conducting an electronic transaction as easy and reassuring as possible since the unbanked were afraid of making a mistake during a transaction and losing money. Customers could select a service by entering a number instead of typing a text message. This eased concerns among those with low literacy levels and no or limited knowledge of English which was the language of bKash's user interface. Since many customers missed the security of a physical receipt, bKash provided receipts via text messages after transactions were completed. It also made mini-account statements available through the main menu so customers could check their e-wallet balance at any time. All of these efforts reassured customers and helped them progress in their ability to use mobile financial services.



MOVING TOWARD GREATER PROSPERITY

Today, the name bKash is synonymous with mobile financial services in Bangladesh. bKash has made great strides in enabling the unbanked to access financial services and the company continues to work toward this goal. In 2015 over \$16 billion worth of e-money moved through the bKash system which, at the very least, has increased the efficiency of Bangladesh's \$200 billion economy. Most importantly, bKash has enabled the unbanked to gain a foothold on the ladder to financial inclusion and, ultimately, to *bikash*—the Bengali word for prosperity and the inspiration for bKash's name.

For more information on inclusive business at IFC, visit www.ifc.org/inclusivebusiness

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ENDNOTES

- 1 Parvez, Jaheed, Islam, Ariful, and Woodard, Josh. 2015. *Mobile Services in Bangladesh: A Survey of Current Services, Regulations, and Usage in Select USAID Projects*. USAID, mSTAR and FHI360.
- 2 As reported by bKash.
- 3 bKash e-wallets operate on a FUNDAMO VISA technology platform and are fully encrypted to ensure secure transactions.
- 4 E-Money is stored value held in the accounts of users, agents, and the provider of the mobile money service. Typically, the total value of e-money is mirrored in a bank account so that, even if the provider of the mobile money service were to fail, users could recover 100 percent of the value stored in their accounts. Bank deposits can earn interest, while e-money cannot. Source: GSMA Mobile Money for the Unbanked. 2010. "Mobile Money Definitions."
- 5 This interface utilized a global data channel called Unstructured Supplementary Service Data (USSD) which was the popular choice for mobile financial services since it was compatible with any type of mobile phone. USSD is a data channel on the Global Systems for Mobiles network, with a menu form of SMS through which customers receive a text menu on their phones instead of a string of words. USSD transports short messages between mobile phones and the network. It provides interactive dialog between the user and a certain set of applications. Source: FinMark Trust. 2007. "Mobile Banking Technology Options." http://www.gsma.com/mobilefordevelopment/wp-content/uploads/2012/06/finmark_mbt_aug_07.pdf.
- 6 bKash shares 7 percent of the revenue it earns through transactions fees with mobile network operators.
- 7 bKash works with all mobile network operators that use the Global System for Mobiles, i.e. GSM network.
- 8 bKash also earns revenue through interest on the float account, which is the balance of e-money, or physical cash, or money in a bank account that an agent can immediately access to meet customer demands to purchase (cash in) or sell (cash out) electronic money. Source: GSMA Mobile Money for the Unbanked. 2010. "Mobile Money Definitions."
- 9 As shown in Figure 3, people in some cities could use bKash to pay for their purchases at select retail stores starting in 2011, but these payments became a major focus for the company in 2014.