



## Terms of Reference

# Consultancy services for ‘Developing Interoperable operating rules and guidelines for Mobile Financial Services (MFS) and Digital Financial Services (DFS) Providers and Banks’

### 1. Project Background:

Business Finance for the Poor in Bangladesh (BFP-B) is a 6.5-year programme funded by UK aid from the UK government. The Bangladesh Bank (BB) and Microcredit Regulatory Authority (MRA) are the implementing agencies and the Financial Institutions Division (FID) of the Ministry of Finance (MoF), Government of Bangladesh (GoB), is the executing agency. Nathan Associates London Ltd. is the management agency. The programme aims to improve access to finance for micro and small enterprises (MSEs) and create economic opportunities for small business in Bangladesh through improvements in the policy and regulation of financial services, innovations in financial services, and strengthening of information systems supporting micro-finance and bank lending. BFP-B has three components and this scope of work is part of the Policy Component.

### 2. Background of this consultancy services

The Policy Advisory Committee (PAC) of BFP-B Project, chaired by Secretary, Financial Institutions Division of Ministry of Finance, is a 17 members body including senior officials from government agencies, regulatory bodies (Bangladesh Bank, Microcredit Regulatory Authority, Insurance Development and Regulatory Authority), apex organisations, financial sector associations and chambers of commerce. The PAC approved a total 8 policy issues for detailed study. BFP-B conducted a study on ‘**Mobile Financial Services for MSEs in Bangladesh: Prospects and Challenges**’ during the period of June to September 2017. This study incorporated significant one-to-one stakeholder consultations and public consultations. Based on guidance of senior management of Bangladesh Bank, BFP-B organised a series of in-depth meetings with the Payment Systems Department (PSD) of Bangladesh Bank to identify and prioritise recommendations that will be supported by Bangladesh Bank for implementation. Two policy recommendations were identified by PSD for implementations and approved by Bangladesh Banks senior management. This include development of guideline for interoperable<sup>1</sup> operating rules and guidelines for MFS, DFS providers and banks. A guideline on interoperable operating system will reinforce PSD’s initiatives in developing interoperability infrastructure across MFS and DFS providers and banks. This consultancy service is part of BFP-B technical assistance to PSD.

### 3. Background of Interoperability across MFS and DFS providers and banks:

Bangladesh has made impressive gains in financial inclusion particularly through mobile financial services. Mobile money accounts increased seven times from 3% in 2014 to 21% in 2017 (Findex). Despite a significant improvement in mobile money market over the last five years, but recent trend shows number of mobile money users are increasing at a decreasing rate. The growth rate of average

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<sup>1</sup>Interoperability is the technical compatibility that enables a payment system to be used in conjunction with other payment systems. Interoperability allows payment service providers, system providers and system participants in different systems to undertake, clear and settle payment transactions across systems without participating in multiple systems. For payment systems, “interoperability” depends not only on the technical ability of two platforms to interact but also the contractual relationships between the entities wanting to interact.

daily transaction was negative ( - 4.53%) between June 2018 and June 2019, compared to growth rate of 10.68% between June 2017 and June 2018 .There is a plateau in use case of mobile money account due to lack of interoperable operating system across banks, MFS and DFS platform.

A lack of interoperability is restricting the volume of digital transactions across MFS and DFS providers and banks. While some banks have acted, on the encouragement of the Bangladesh Bank, to open up their systems to enable money transfers from bank to MFS account, transfers from mobile account to banks remain absent. This lack of interoperability is significantly restricting the value of money in mobile wallets that cannot be transferred to bank account and reducing use case for customers. MFS in Bangladesh is regulated as a bank-led business-model. Mobile money deployments currently operate as a 'walled garden', meaning that transactions can only be performed between users of the same system, i.e. a user can only transfer electronic money to another user of the same MFS provider.

A guideline will reinforce PSD initiatives allowing inter-MFS, MFS-bank and DFS-bank transactions, promoting competition, improving value of financial services by reducing operational costs and unlocking economies of scale, the use case of payment instruments and convenience for user. Bangladesh Bank is in the process of developing interoperability infrastructure and a guideline on interoperable rules and guideline will aid the process. A guideline for providers will help to make the necessary system and process changes for interoperable platform. Also, a guideline defining interoperability means a uniform interoperable system across all platforms that may incentivise and bring structure into the eco-system for both providers and regulators. Also, a guideline is necessary to enable faster payment settlement and dispute resolution. The global experience of introducing interoperable operating rules and guideline maybe drawn as part of literature review. Interoperability, as a feature, promotes healthy competition among the MFS providers in the market. It will motivate the providers and MSE users across different providers and channel to conduct business using MFS. Interoperability will also ensure the complete payment eco-system moves towards a cashless society.

#### **4.0 Statement of the Problem and Issues:**

The common challenges to interoperability include a lack of uniform definition of interoperability for providers, benefits of the payment system providers associated with interoperability are not clear, mistrust amongst competitors, lack of understanding on technical and commercial model to govern the interoperable process and lack of enabling regulatory environment for interoperability<sup>2</sup>. Also, few banks have opened their system for money transfer from bank to mobile wallets but the provision for money transfer from mobile wallet to banks remain absent due to weak regulatory guidance on interoperability.

The global experience suggests four key factors in facilitating payments system interoperability which include economic incentives among the participants, effective regulatory framework, government commitment on using digital payments system and careful consideration of early dominance market players. Three functional elements are critical for effective interoperability which includes technical infrastructure, incentives among the payments system providers and governance of interoperability by the regulator.

Economic incentive requires a level playing field for all providers and MFS usage convenience for customers. For smooth and efficient operation of the MFS market, a critical concern is to ensure that different types of providers have entry into the market and promote fair competition for effectiveness. This requires an open MFS ecosystem that does not have concentrated market share across MFS providers. Also, at provider level not many are opening up their system for interoperability due to a gap in understanding the technical and commercial requirements as well as lack of regulatory

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<sup>2</sup>Mujeri and Azam (2018), Interoperability of Digital Finance in Bangladesh: Challenges and Taking-Off Options, InM Working Paper No.54, April 2018.

guidance. The uptake of use case of MFS by customers requires interoperability among different payment system providers.

Regulations and policies need to be developed on 'follow the market' approach. Interoperability has become a growing demand of the market and but without any regulatory guidance, incentive mechanism for both providers and customers the growth of mobile money accounts may eventually fall. Despite government mandate for use of digital transaction, the regulatory framework for interoperable system needs to be strengthened. So, it is imperative to have an interoperability guideline to address the growing demand of market and incentivize the use of mobile money wallet.

## 5.0 Overall Objective:

The purpose of the assignment is to provide expert opinion and consultancy support to PSD to develop a guideline focussing on business side of interoperability for banks, MFS and DFS providers.

## 6.0 Scope of the assignment:

**Scope of interoperability across different platforms:** the guideline should include a) defining interoperability for providers, b) structure for providers including pricing, limits in transaction volume and number, payment and dispute settlement etc., c) review of the existing Payment and Settlement Systems regulations, rules and guidelines of Bangladesh Bank, national strategies and public policies, d) global regulatory practices in introducing interoperability, e) how to increase use case of interoperable payment systems network.

**Requirements for National level interoperability:** the guideline should focus on- a) how to ensure safety and security, customer protection, quick reconciliation and payment settlement, and dispute and grievance redressal, b) eligibility criteria for new market entrants,

## 7.0 Detailed tasks and suggested methodology:

The consulting firm is expected to submit a technical proposal with methodology and outline of guideline. The consulting firm is expected to send one or more experienced local and/or international consultants who will support PSD of BB during a predefined time period to prepare an operating rules and guideline of MFS interoperability. After selecting the consulting firm, the methodology and deliverables will be refined through a kick-off meeting with BFP-B and PSD of BB. The inception report will be submitted with the revised methodology and work plan. The methodology is expected to cover following major areas:

**Literature review:** Review existing guidelines and circulars of Bangladesh Bank related to MFS/DFS/PSP/PSO to avoid contradiction and have synergies to develop the clauses of operating rules and guideline. Review relevant national strategies and policies to ensure interoperability guidelines reinforce public policies. Review reports, journals, articles etc across banks, MFS and fintechs/DFS in Bangladesh and other countries. The list of key documents to be reviewed and rationale for how each of one will aid to develop the guideline should be provided in the technical proposal.

**Stakeholder consultation:** The consultants may consult with banks, MFS and fintechs/DFS providers, payment service providers, relevant departments of Bangladesh Bank and other relevant stakeholders. The mode of consultation may be interviews or group discussion. The list of stakeholders with rationale for selection and the purpose of consultation with each stakeholder should be provided in the technical proposal. Also, proposed number of interviews and discussion to be conducted and categories of respondents/participants.

## 8. Deliverables:

A team of PSD and BFP-B will work with consultant. Consultant will deliver the following outputs:

- Inception report containing methodology, outline of guideline with key headings and work plan (main report should not exceed 10 pages and information collection instruments should be provided in the annex)
- Prepare a draft interoperable operating rule and guideline with rationale of each sections and clauses of the document. The guideline will be in two parts-1) Draft interoperable operating rules and guideline in both English and Bangla, 2) Rationale and analysis of each section and clause of the guidelines in annex. This version will include comments of PSD and service providers.
- Final draft on interoperable operating rule and guideline with rationale supporting the clauses. The comments from Payment Systems Department (PSD) and BFP-B should be incorporated. The final guideline should be in both English and Bangla. (Note: this is the final version of the guideline from consultant side)
- Power Point presentation of the guideline with rationale and analysis of each section.
- 2-pagers summary infographic. This includes analysis with rationale of each section of guideline, the constraints of service providers, lack of use case for customers and showing the impact of interoperable operating rules and guideline on service providers and overall financial inclusion with data.

## 9. Schedule of assignment:

- Estimated start and end date: 1<sup>st</sup> October to 15<sup>th</sup> December 2019

The schedule of assignment will be finalised upon signing of the contract by Nathan Associates London Ltd.

## 10. Reporting

The consultant shall report to the BFP-B Team Leader and Policy Manager for overall strategic and technical guidance. The BFP-B Policy Coordinator will be the primary contact for the study team. The BFP-B Team Leader upon confirmation from Bangladesh Bank and DFID will approve the study report.

## 11. Expected Core Team Composition of Consulting Firm / Individual Consultant

The team proposed should have a combination of experts with international and national experience and a local team who will work directly with PSD and BFP-B on site for any meetings or analysis session as and when required.

The expected core team composition for this consultancy service include the following:

**1.International Team Leader:** The team leader should have at least 5 years of experience in the area of interoperability / Payment Systems Regulation / Policy and/or Mobile Financial Services (MFS) and/or Mobile Money, KYC /e-KYC, anti-money laundering, USSD Regulation/Policy, Digital Financial Services and Financial Inclusion.

**2. Local Expert:** The Local Expert should have at least 10 years of experience in banking, payment systems regulation and policy of Bangladesh. The Local Expert should have at least 3 year of experience in MFS, mobile money and DFS operations and policies, and also payment settlement system in Bangladesh.

**3. Research Associate:** The Research Associate should have at least 5 year of experience in financial sector research and policy analysis.

The international Team Leader is expected to work both on site and off site particularly during key meetings. The Local Expert will closely work with PSD of BB and if required, to be based in PSD of BB for a certain period. Other team members maybe required to be resident consultant in PSD.

The consulting firm / consultant can also include other team members such as Policy and Regulation Expert, Research Assistant, Data Analyst and research enumerators if required. It is the discretion of the consulting firm / consultant whether to include the additional team members, which will have implication on financial proposal.

## **12. Qualifications of Consulting Firm / Individual Consultant:**

The consulting firm/consultant must be registered with a legal entity/ relevant licenses under legal authorizations. The firm should have at least 2 years of research experience in the area of interoperability / Payment Systems Regulation / Policy and/or Mobile Financial Services (MFS) and/or Mobile Money, KYC /e-KYC, anti-money laundering, USSD Regulation/Policy, Digital Financial Services and Financial Inclusion.