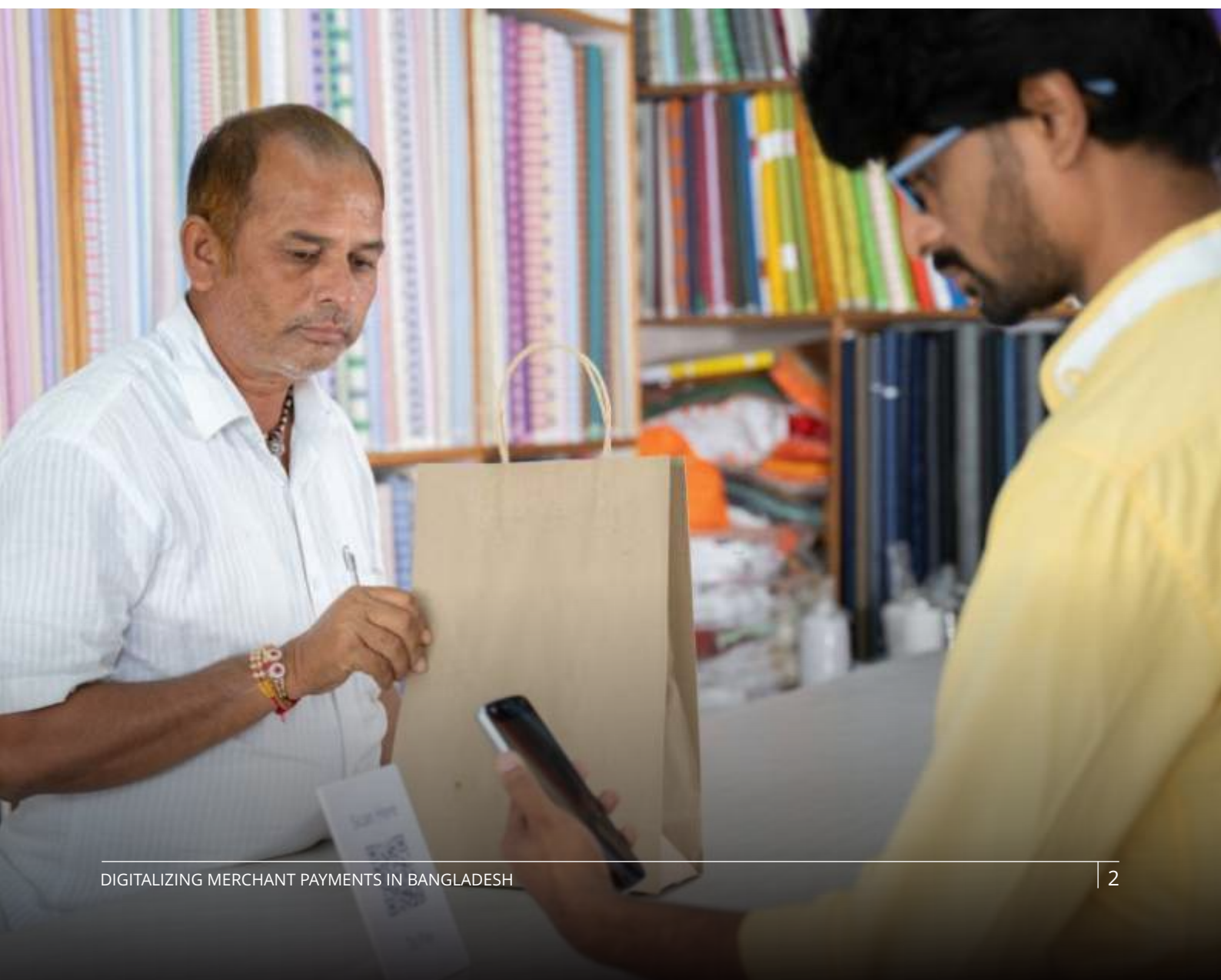


DIGITALIZING MERCHANT PAYMENTS IN BANGLADESH



Overview

Our customer, Bangladesh's leading private bank, is on an ambitious mission to build universally accessible banking and payment services. In a country, where less than 15% cash flows are digitalized, the electronification of merchant payments represents a significant untapped opportunity. The availability of multiple access points, where customers can use their accounts to pay for goods and services electronically warrants, they store their funds digitally. The bank selected FSS as its technology service provider on its journey to empower merchants, especially small and medium segments, with digital payment acceptance tools. FSS Omni-Channel Merchant Acquiring platform is helping our customer optimally grow and manage its merchant portfolio and focus on competitive growth by bringing a range of merchant centric innovations.



Our Customer

Founded in 2001 our customer is Bangladesh's leading financial services organization established with a vision to become the digital bank of choice and bring Bangladeshis under the umbrella of formal digital banking and payment services. As a forward-looking financial institution, the bank has invested in creating resilient digital payments and banking infrastructure, playing a pivotal role in facilitating the shift from cash to digital transactions in the country.

Integral to the bank's market approach has been the ability to deliver superior customer experiences, improve operational efficiencies and generate new and diversified revenue streams to stay ahead of the times. The bank internet and mobile banking app, for instance, is one the fastest-growing private commercial bank services in Bangladesh. This emphasis is also carried forward by collaborating with local and international FinTech solution providers to conceptualize and cocreate innovative products and services that meet customer expectations and aspirations. In 2017 the bank became the country's first private bank to cross the USD 1 billion market capitalization milestone. Currently, the bank serves one million customers and has more than 481 agent banking outlets, over 187 branches and 375 ATMs.

Customer Need

Tap into the Growing Digital Commerce Market

Bangladesh has seen over a decade of strong economic growth and is among the world's top ten fastest growing economies. The country is on the road to rapid digitalization with the biggest impact being felt in the noticeable rise in ecommerce payments. Riding on a booming economy, growing adoption of formal banking services, progressive regulation, and a large digitally savvy millennial population, are helping to drive the Bangladesh eCommerce market at pace. The country has one of the most digitally connected populations on the planet. As per BTRC's June 2021 statistics, about 120.95 million people in Bangladesh are now connected to the internet. Bangladesh has largely bypassed the desktop internet era, with 110.90 million

consumers accessing the Internet on their mobile phones. Bangladesh is also the ninth largest mobile market in the world with 160 million mobile subscriptions. As a result, these regions have been mobile first in most of their internet behavior

In addition, to support the market's evolution, the government and the regulator has introduced a set of measures related to infrastructure and consumer protection, to incentivize the sector. This includes National Digital Commerce Policy to foster trust in consumer interactions, Interoperable Digital Payment Platform (IDPP), White Label ATM and Merchant Acquiring Services (WLAMA) Policy, waiver of VAT and additional charges for micro-merchants to encourage payment services thereby contributing to the growth of the digital payment ecosystem.

Collectively these developments are reaping dividends. While traditional bricks and mortar retail remains, strong digital commerce is growing at a rapid pace in the country. The Bangladesh e-commerce industry is expected to grow to US\$3 billion by 2023, driven by growing consumer preference for online and touch-free payments. Retailers have acknowledged the need for a dual face to face and online strategy. These are complemented by eCommerce "pure play" retailers who have been increasing consumer product choice and smaller retailers coming online facilitated by online commerce platforms and payment gateway capability.

Looking ahead, the bank wanted to capitalize on these developments to shape the market and establish a leading presence. Specifically, the bank was looking to:

- ◆ scale the merchant portfolio by help e-tailers and small merchants tap a growing market of tech-savvy consumers
- ◆ create merchant stickiness by delivering integrated experiences
- ◆ drive infrastructure utilization by bringing unique value propositions to the market
- ◆ improve operating efficiencies by creating a single window for managing critical merchant related workflows
- ◆ extend reliable and secure processing infrastructure to merchants

To help bring this vision to life, the bank needed a partner that was able to marry technology leadership with proven experience to meet its aggressive growth goals.

Bangladesh	Key Metrics
Population	165M (65% under 25)
Debit Cards	18.6M
Prepaid Cards	0.48M
Credit Cards	1.5M
ATMs	10,961
MFS Registered Users	84M
MFS Active Users*	28M
POS Terminals	60,474
https://www.bb.org.bd/fnansys/paymentsys/natpayswitch.php	
https://www.bb.org.bd/fnansys/paymentsys/mfsdata.php	
*Account in which transaction made in last 3 (Three) Months.	

Recent Policies	
Interoperable Digital Payment Platform (IDPP):	<p>Bangladesh Bank signed a Memorandum of Understanding (MoU) with the ICT division in January of 2020 to implement an interoperable system of digital payments in the country where customers can access all digital services under one API (Application Processing Interface). This will create a bridge of transactions between various payment service participants, such as customers, merchants, payment and receivables, payment processors, e-wallets, banks and financial institutions, payment system operators and non-governmental organizations.</p>

<p>Pro-internet Banking Policies</p>	<p>Bangladesh Bank recently raised the limit for interbank daily online transactions, which included a five-fold increase in the limit for institutional users. This policy change will allow more users to make secure online transactions from their homes and ultimately widen the scope of online banking in the country.</p>
<p>White Label ATM and Merchant Acquiring Services (WLAMA) Policy</p>	<p>The Bangladesh Bank introduced WLAMA to expand the network of ATMs through independent non-bank operators. The guidelines bundle together merchant acquisition services along with white label ATM services. While the white label ATM services endeavor to expand ATM services to rural financial services customers, merchant acquisition services will expand card and other digital transaction capabilities (both in-store and e-commerce), with a particular focus on the rural areas. Accordingly, the WLAMA guidelines requires the WLAMA licensee to deploy a minimum of 100 ATMs and 1000 POSs/QRs per year, maintaining the urban to rural deployment ratio of 1:3.</p>
<p>Micro Merchant Support</p>	<p>Bangladesh Bank has mandated banks, MFS and payment services to open retail accounts of micro merchants. This process would not require any additional charges such as VAT or any Tax Identification Numbers. This step has allowed digital inclusion at the lowest level of trade in Bangladesh and is being seen as the first step in creating financial inclusion at grassroot level traders.</p>

<https://www.lightcastlebd.com/insights/2020/12/digital-payments-in-bangladesh-a-road-to-growth-and-stability/#:~:text=Interoperable%20Digital%20Payment%20Platform%20%28IDPP%29%3A%20Bangladesh%20Bank%20signed,digital%20services%20under%20one%20API%20%28Application%20Processing%20Interface%29>

https://www.vertexchambers.com/blawg-list/guidelines-for-white-label-atm-and-merchant-acquiring-services-june-2020-issue-3/?utm_source=Mondaq&utm_medium=syndication&utm_campaign=LinkedIn-integration

Solution

The bank researched the market and evaluated solutions from several technology providers before selecting FSS as its technology partner. A global payments technology company, FSS has a heritage of disruption, software innovation and delivery excellence. This guided the decision in favor of FSS. FSS collaborated with the bank to develop and operationalize a merchant acquisition strategy, seeking to grow the volume of electronic retail payments and to deepen access and usage of financial services in Bangladesh. The aim was to **enable the Bank's speed and agility requirements** to expand its ecosystem of services and products and **solidify its market position as a leader in retail payments**.

Solution Details

FSS Omni-Channel Acquiring Platform consolidates online, mobile, and in-store payment acceptance onto a single system to help merchants expand their digital business. The solution provides merchants the flexibility to adopt a progressive approach to digitalization, integrate with a single channel and seamlessly add-on channels and payment instruments to meet evolving business demands. A centralized platform consolidates discrete channel-centric merchant operations and brings improved operating efficiencies. This includes single onboarding irrespective of channel, centralized merchant management, accounting and settlement, and cross-channel merchant insights. FSS has been able to help significantly reduce future upgrade and maintenance costs by consolidating multiple channels and taking over full support of their infrastructure while allowing the bank to leverage a modernized platform.

◆ **Multiple Payment Types**

Support for a range of traditional and alternative payment methods (APMs) which expands reach and sales for merchants

◆ **Supports Digital Onboarding**

Supports seamless onboarding, providing flexibility to tailor the process based on regional regulatory requirements. Account onboarding APIs enable acquirers to gather required information from merchants to quickly and efficiently set up their accounts to start collecting payments immediately – within a fully customizable and branded experience.

◆ **Efficiently Manage Merchants Across Channels**

Supports the complete lifecycle of back-office processing including setting up merchant agreements, opening accounts across channels, multi-currency transaction processing, and management, merchant services, billing and settlement. Business users can flexibly configure unique merchant account pricing and settlement terms without requiring any technical changes to the system.

◆ **Secure Operations**

The integrated risk monitoring and fraud measures allow merchants to achieve the highest security levels and lower chargeback exposures. With two-factor authentication, tokenization and PCI-DSS compliant end-to-end encryption systems, FSS Omni-Channel Platform is secure and protects payments.

◆ **Advanced Reporting**

Consolidates all data at a single place to provide comprehensive cross-channel view into merchant, risk and transaction trends, enabling the bank strengthen merchant relationships, optimise conversions, improve fraud detection capabilities and achieve operational efficiencies.

Business Outcomes

FSS is helping the bank to build its merchant services brand and create a foundation for competitive differentiation and future growth. The bank has integrated all internal payment channels with FSS Omni-Channel Acquiring platform which in turn will unlock substantial efficiency and drive customer satisfaction and retention

Grow Merchant Portfolio

The innovations combined with the field support has helped the Bank to rapidly expand its merchant base. Currently the bank is helping 1,000 ecommerce and 10,000 PoS merchants big and small, expand customer outreach and deliver exceptional experiences. The offering enables the bank to attract smaller merchants and medium enterprises who are non-tech savvy and would need affordable base infrastructure to support online commerce. In 2020, our customer onboarded 1,773 merchants onto the new Universal Acquiring platform. The bank has also expanded its POS footprint, adding 1,981 terminals to its network. With digital push in the country, the number of merchants, at conservative estimates, is expected to grow at more than 10%-15% annually.



6%
POS acquiring volume
growth, 2020



93%
Growth in e-commerce
business, 2020



1,543
New merchant
onboarded, 2020



1,981
New POS terminals
deployed, 2020

Relevant Market Propositions to Create Merchant Stickiness

FSS Omni-Channel Acquiring Platform helps the bank to introduce several new innovations and take advantage of the digital boom and accommodate new, in-demand digital commerce journeys. Over the last 12 months the bank:

- Expanded contactless (NFC) POS transactions across the country to meet growing consumer demand for safe, touch-free transacting experiences
- Launched China Union Pay card for POS and e-commerce transactions to drive transaction volumes
- Launched QR code transactions to enable micro medium and small merchants to accept payments

This investment in building new services has positive impacted merchant acquisition and topline

Accelerate Growth in Transaction Volumes

Post deployment in-store and online transactions have recorded a sharp uptrend. Covid-19 further accelerated growth as consumers started adopting digital shopping due to lockdown restrictions. In 2020 the bank recorded a 90% year-on-year increase in e-commerce volumes. POS transaction volumes, likewise, have recorded significant growth. The bank achieved Tk. 300 crore (USD 34 million) in POS acquiring, which is the highest-ever for us in a single month. The average transaction size of 3000 BDT (34.9 USD) per day.

Streamlines Merchant Operations

FSS Omni-Channel Acquiring Platform drives optimized ways of working for each user with its single integration for online, mobile, and in-store commerce. The bank has eliminated costly duplicative functions and reduced associate maintenance and upgrade costs typical of vertically integrated, channel- centric systems.

Indirect Benefits

FSS Omni-Channel Acquiring Platform creates cross-sell opportunities for the bank. Merchant payments promote higher balances as they provide a use case for keeping funds in accounts. These balances can be used for intermediation to provide loans and can be a significant source of revenue depending on the balances that can be attracted as well as the loan interest rate. Further payments data can be used to do data-driven credit scoring based on indicators such as balances.

FSS and the bank continue to collaborate to take advantage of the Bangladesh's fast growing digital commerce market and identify new ways for the bank to attract and retain the next generation of merchant customers to win market share away from larger competitors.

About FSS

FSS (Financial Software and Systems) is a leader in payments technology and transaction processing. FSS offers an integrated portfolio of software products, hosted payment services and software solutions built over 30+ years of experience. FSS, end-to-end payments products suite, powers retail delivery channels including ATM, POS, Internet and Mobile as well as critical back-end functions including cards management, reconciliation, settlement, merchant management and device monitoring.

Headquartered in India, FSS services leading global banks, financial institutions, processors, central regulators and governments across North America, UK/Europe, Middle East, Africa and APAC.

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