

Governance Challenges in Mobile Financial Services Sector in Bangladesh

Extended Executive Summary

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Dhaka: 27 May 2025

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Acknowledgment

We would like to express our sincere thanks and gratitude to all the relevant stakeholders including officials of the relevant authorities, officials of MFSPs, journalists, and sector experts who have extended their valuable opinions, shared their experiences, and provided necessary data and information to support this research.

Our heartfelt gratitude goes to the nationally and internationally renowned statistician and researcher, Former Professor of the Institute of Statistical Research and Training (ISRT) at the University of Dhaka, Mohammad Shoaib, for working with us to ensure the scientific rigor and methodological excellence of this study. We also express our deep appreciation to the research advisors- Dr. Iftekharuzzaman, Executive Director of TIB; Professor Dr. Sumaiya Khair, Adviser Executive Management; and Muhammad Badiuzzaman, Director, Research and Policy Division- for their strategic guidance and insights that enriched this report. Special thanks to Mohammad Tauhidul Islam, Director, Outreach and Communication Division, and other members of the Executive Management Committee for important feedback on the report.

We express our gratitude to Senior Research Fellows Shahzada M. Akram and Md. Mahfuzul Haque for their special assistance in reviewing and refining the report. We are also thankful to former Senior Research Fellow, Ms. Shahana Rahman for her contribution in developing research design and field data collection. Furthermore, we are thankful to Research Associate Md. Mostafa Kamal for his significant contributions in qualitative data collection.

We would like to extend our sincere thanks and gratitude to the members of the Committees of Concerned Citizens (CCC), YES members, and all colleagues from TIB's Civic Engagement Division, both at the central and field levels, for their significant contributions to field-level data collection. Finally, we thank our colleagues from the Research and Policy and Outreach and Communication Divisions for their assistance in providing relevant information, analysis, report preparation, and their valuable insights.

1. Introduction

1.1 Study Background

Mobile Financial Services (MFS) refers to financial transactions made using mobile phone number, including payments, transfers and banking services, where the records of all transactions are preserved in a digital system. The MFS services were initiated in Bangladesh in 2011 with the purpose of promoting access to formal financial services at an affordable cost, especially for the unbanked marginalized population, including women, ensuring fast financial transactions, and reducing use of cash and its associated cost. The Payment Systems Department (PSD) of Bangladesh Bank is the regulatory and licensing authority of the MFS sector. It provides license to MFS Providers (MFSP) under the provision of 'Bangladesh Mobile Financial Services (MFS) Regulations, 2022'. Moreover, Bangladesh Financial Intelligence Unit (BFIU), Bangladesh Telecommunication Regulatory Commission (BTRC), and the Office of the Register of the Joint Stock Companies and Firms (RJSC) are key stakeholders with significant supervisory and regulatory roles in this sector.

At present, 13 Mobile Financial Services Providers (MFSPs) are continuing their operations. According to a report of Bangladesh Bank, as of December 2024, the total number of MFS account holders (registered customers) is about 237 million (58.4% male and 41.6% female), of which 37.6% are active accounts. The number of merchant accounts is 1.54 million. In addition, this sector creates a significant number of employment opportunities. According to Bangladesh Bank, a total of 1.83 million agents are working in this sector. The average transaction per month is BDT 1647.4 billion, and the daily average is BDT 53.14 billion.

Financial transactions through MFS are increasing due to their diverse services, ease of transaction, increased transaction limit, opportunities to receive social safety net programme allowances, etc. The use of MFS services is gradually increasing to ensure financial inclusion, including social safety net programme, education stipend programme, and salary payment in various offices. According to a report of Bangladesh Bureau of Statistics (BBS), in 2023, 51.7% of individuals aged 15 and above held an account with a bank or financial institution, or MFS. Exclusively 28.3% had accounts with banks, while 47.8% had MFS accounts. The amount of remittance received through MFS is gradually increasing, in 2024, Bangladesh received a total of BDT 107.86 billion of foreign remittance through MFS via legal channel.

1.2 Study Rationale

Increasing financial inclusion through mobile and digital technologies was mentioned in the Perspective Plan of Bangladesh 2021-2041, while the Eighth Five Year Plan, emphasized greater access to the financial sector for women and marginalized population. On the other hand, several targets were set in the Sustainable Development Goals (SDGs), including ensuring equal rights to economic resources, as well as access to appropriate new technology and financial services for all (Target 1.4); strengthening the capacity of domestic financial institutions to expand access to banking and financial services for all (Target 8.10); reducing illicit financial flows (Target 16.4); reducing corruption and bribery in all their forms (Target 16.5); and developing effective, accountable and transparent institutions at all levels (Target 16.6). Although the MFS sector is a crucial and promising financial sector, considering its increasing number of users and transaction volume, various media reports, studies, articles, and journals have highlighted concerns and challenges in this sector. However, there is a lack of in-depth research focusing on the governance challenges in the MFS sector in Bangladesh. TIB has been conducting research on various important public issues, including the business integrity, banking and financial sector as part of its continuous activities. In continuation of

these efforts, TIB initiated this research to find out the Governance Challenges in the MFS Sector in Bangladesh.

1.3 Research Objective

The overall objective of this study is to identify the governance challenges in the Mobile Financial Services (MFS) Sector in Bangladesh. The specific objectives are:

1. To review the legal and regulatory framework governing the MFS sector and assess its compliance in practice.
2. To examine transparency, accountability mechanisms, institutional capacity, and overall effectiveness using specific governance indicators.
3. To identify the nature, scope, and extent of irregularities and corruption in the sector.
4. To develop evidence-based recommendations based on research findings.

1.4 Scope of the study

This study analyses governance challenges of MFS sector based on currently functional 13 existing MFSPs and reviewed the functions of the relevant regulatory and supervisory stakeholders in this sector. This study covered issues related to MFSP licensing and approval process, business models, the nature of business ownership and operational modalities/management structures, investment, financial transactions, payments and settlement system, customer services, privacy and security of customer information, grievance redress mechanism, etc.

1.5 Research Methodology

This is a mixed method study. Considering the content and purpose of the study, both qualitative and quantitative methodologies were used to collect data from primary and secondary sources. A three-stage stratified sampling method was used to determine a representative sample size for the three types of active MFS account holders across 32 districts and to collect MFS related experience-based information through a survey. The Cochran formula was applied to determine the sample size from the three types of MFS account holders, considering a design effect of 1.5 and a 10% non-response rate. The sample size for personal account holders was 1,784 with 3% margin of error, for agent account holders was 664 considering 5% margin of error, and for merchant account holders was 429 considering 6% margin of error. Key Informant Interview (KII) was another primary data collection method. Applying the KII method, data were collected from relevant officials of the Bangladesh Bank, BFIU, CID, MFSPs, Commercial Banks, and Directorate of Posts. Along with that the data were also collected from researchers, sectoral experts, journalists, personal account holders, discontinued agent account holders, distributors or super-agents.

As part of the secondary source data, institutional information was collected and reviewed from the websites of relevant institutions, and reports published in the media (print and electronic), research reports, books, relevant documents, rules and regulations. The data collection period for the research was from November 2023 to May 2025. It is worth noting that most MFSPs and relevant stakeholders caused unnecessary delay, exhibited non-cooperation during data collection, and, in some cases, provided incomplete information. One of the MFSPs (MyCash) and one institution (BTRC) refused to provide any information.

1.6 Analytical Framework of the research

The issues within the research scope have been reviewed in light of five indicators of good governance used in this study: regulatory framework, capacity and effectiveness, transparency,

accountability, and irregularities and corruption. The key issues reviewed under these governance indicators include existing laws, regulations, and policies related to business models, investment, licensing, ownership and operational modalities, marketing and advertisement, and money laundering. The other issues include ‘Electronic Know Your Customer’ (e-KYC) and customer enrollment, sanction screening, investment, service diversity, interoperability, financial management, agent and distributor training, market competition, proactive disclosure of information, confidentiality and security of customer data, audit and internal controls, Suspicious Transaction Report (STR) and Anonymous Transaction Report (ATR), trust-cum-settlement, complaint and grievance redress mechanisms as well as the nature, extent, and level of corruption, fraudulence and embezzlement, etc.

2. Key findings

2.1 Governance challenges in MFS regulatory framework:

Failure to introduce a well-planned, specific and complete legal framework

Although the journey of the MFS sector in Bangladesh began in 2011, it was operated under a guidelines issued by Bangladesh Bank until 2017; a formal regulation was introduced in 2018, followed by an updated version in 2022. However, to date, a comprehensive and specific law for the sector has not been formulated. There were significant deficiencies in reviewing, evaluating and planning in the process of enacting new rules and regulations, or amending in the existing legal structures. In 2011, considering its supervisory capacity, Bangladesh Bank introduced the Bank-led business model for MFS at that time. From the very beginning of the MFS sector, despite ongoing controversy over which types of institutions should be allowed to run MFS operations (technology-based start-up or bank-led initiatives), Bangladesh Bank failed to adopt international best practices in determining the business modalities. In the Regulation enacted in 2018, the subsidiary model was made mandatory without properly assessing the successes or limitations of existing MFSPs operating under the bank-led or subsidiary models. Moreover, the 2022 regulation allowed government institutions to lead MFS operations, while this opportunity was not extended to other non-government institutions.

Limitation in existing regulation:

Discriminatory business model and terms and condition

Law/Rules	Limitation/challenges
<i>Bangladesh Mobile Financial Services (MFS) Regulations, 2022</i>	
To provide MFS in Bangladesh, scheduled commercial banks that are already in MFS operation are permitted to continue with the existing license or may form a subsidiary. In case of new applicants, scheduled commercial bank(s) or financial institution(s) or Government Entity shall have to form a subsidiary. (Rules 6.1)	<ul style="list-style-type: none"> • The regulation does not provide for a single model, business modality or a management structure for operating MFSP businesses. • Older bank-led MFSPs are not required to form subsidiaries, creating institutional disparity among service providers. • The regulation does not permit MFSP operations to be led by other private institutions including telecom operators, other than banks. • Despite having their direct involvement in the sector, mobile network operators are excluded from MFS ownership or leadership roles.
To mitigate risks, the minimum paid-up capital requirement of a subsidiary model-based MFS provider is BDT 45 Crore. (Rules 6.2)	<ul style="list-style-type: none"> • Unfairly, the provision is only applicable to subsidiary-model-based MFSP, with no mention of the minimum paid-up capital for bank-led MFSPs.

No provision for controlling rate of service charge/fees

Law/Rules	Limitation/challenges
<i>Bangladesh Mobile Financial Services (MFS) Regulations, 2022</i>	
The rate of charges realizable from various financial services offered by the MFS providers to their clients shall be set in a competitive, non-collusive manner. Besides, keeping BB's PSD fully apprised of all rate settings and rate revisions. (Rules 9)	<ul style="list-style-type: none"> The regulation provides full power to the MFSPs for setting the rate of service charge, only requiring Bangladesh Bank to be kept apprised. There is no provision for engaging Bangladesh Bank in the process of setting rate of service charges.

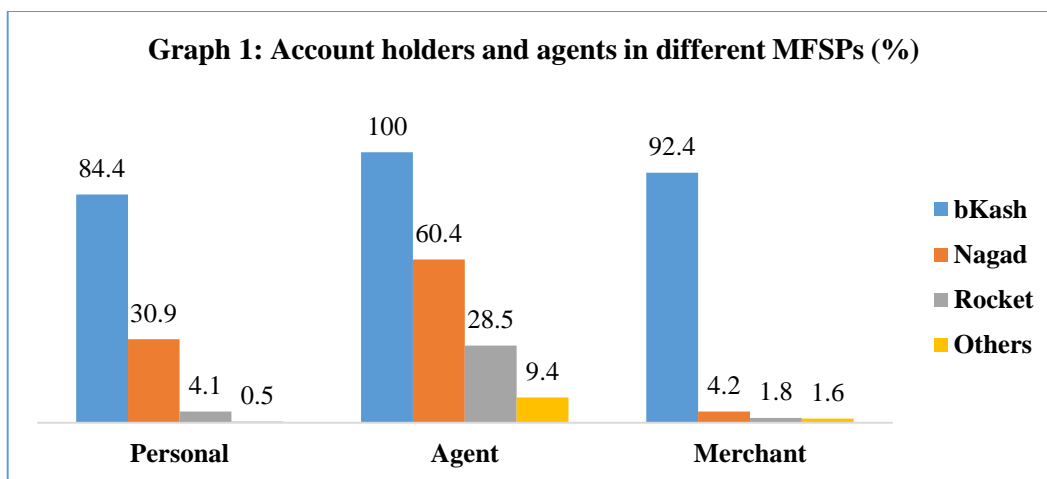
Weakening the evidence in trail process of money laundering cases

Law/Rules	Limitation/challenges
<i>Money Laundering Prevention Rule, 2019</i>	
The BFIU intelligence report cannot be presented in court by the investigating agency, and no BFIU official involved in the report may be called as a witness. [Rule 29 (4)]	<ul style="list-style-type: none"> Unlike the international best practices, BFIU intelligence reports are not admissible as court evidence, which weakens the evidence and undermines the strength of legal proceedings. Investigating agencies have to make the same efforts again by gathering the same evidence and information, causing unnecessary delays in the investigation and prosecution process.
This regulation does not include any provision for direct contact/communication between the officials of investigating agencies and officials of BFIU responsible for preparing the intelligence report.	

Limitation in legal structures causes a monopoly market in the MFS sector

In the MFS sector, the prolonged absence of a comprehensive legal framework and the presence of regulatory constraints have contributed significantly to the emergence of a monopolistic market structure. Market competition has been notably restricted due to exclusion of non-banked entities - such as non-bank financial institutions (NBFIs), telecommunications companies or telco's, and private organizations - from accessing operational licenses and imposition of strict licensing conditions for new MFSPs. Several new institutions registered as MFSP and entered into the MFS sectors attracted by the success of a few existing providers, but they have failed to sustain due to limited financial investment, inadequate technological capabilities, and insufficient institutional initiative.

Among the 29 organizations that were originally granted licenses to operate as MFSPs in Bangladesh, only 13 remain active as of the latest assessment. The market is overwhelmingly dominated by two players - *bKash* and *Nagad* - with *bKash* holding the largest market share.



Survey data reveals that *bKash* currently serves 84.4% of individual account holders, 100% of agents, and 92.4% of merchant account holders. In comparison, *Nagad* accounts for 30.9% of individual account holders, 60.4% of agents, and only 4.2% of merchant account holders. This high degree of market concentration reflects significant competitive imbalances within the sector and highlights the challenges faced by other licensed entities in scaling up their operations.

2.2 Capacity and effectiveness:

Lack of institutional capacity of MFSP

Most of the bank-led MFSPs are run without a separate board of directors, while the boards of the parent banks control the MFS activities. Some MFSPs face challenges in their investments; for example, *TAP* (now Trust & Pay) are having to make new investment plans after leaving of their partners. Moreover, many MFSPs lack a specific manpower structure – while *bKash* and *Nagad* employed approximately 3,000 and 4,500 full-time staff respectively. The majority of bank-led non-subsidiary MFSPs operate with fewer than 20 full-time employees. As most of the MFSPs do not have separate offices, they are using the offices of the ‘parent’ banks as MFSP offices. Most of the bank-led MFSPs do not have their own data servers and disaster recovery/backup servers, despite there being such rules, forcing them to use the ‘parent’ bank’s servers. It is noteworthy that two MFSPs were forced to limit their activities due to the stopping of the technical assistance of the contracting companies.

Lack of capacity of regulatory and supervisory institutions

Regulatory and supervisory bodies, particularly the Payment Systems Department (PSD) of Bangladesh Bank and the Bangladesh Financial Intelligence Unit (BFIU), are facing notable challenges in effectively managing the MFS sector. Both of the institutions lack sufficient manpower with technical knowledge and implementation capacity. Although the sector has experienced rapid growth in customer base, service variety, and operational reach, the increase in regulatory manpower has not kept pace proportionately. This gap has constrained the ability of PSD to perform regular on-site inspections of agent locations and distributor offices. Additionally, the shortage of technically skilled manpower in Bangladesh Bank, and Information and Communication Technology Division (ICT division), alongside insufficient collaboration among stakeholders in the financial sector, has hindered the successful implementation of interoperability in mobile financial services.

Complexity in filling up online customer identity form or e-KYC form

The e-KYC form filling process lacks user-friendliness, particularly for feature phone users and vulnerable populations, resulting in nearly two-thirds of individual account holders relying on external assistance. Survey data show that 59.0% of the personal account holders completed the e-KYC process through agents, while 10.1% sought help from others, raising concerns about potential breaches of customer confidentiality. Additionally, the e-KYC system remains inaccessible to visually impaired and illiterate individuals as it is not friendly for them, resulting in limited inclusiveness in MFSs.

Not verifying customer information effectively

Although MFSPs can verify e-KYC information through the government's National Identity Registration Wing or NIDW for a fixed fee, weak technical capacity and poor coordination among stakeholders have created loopholes - there are opportunities to open accounts using stolen or seized NID through deception. Moreover, most MFSPs bypass sanction/ban list verification due to high costs and time constraints. Additionally, there is an absence of proper use of Artificial Intelligence (AI) for detecting suspicious or anonymous transactions, due to the absence of clear policies, shortage of skilled personnel, and lack of institutional willingness.

Putting the burden of service on customers

Compared to traditional banks, MFS users face substantially higher service fees.

Table 1: Comparative Analysis of Service Charges between Banks and MFSPs

Services*	MFS Service Charge (for BDT 25,000)	Banks' Service Charge (for BDT 25,000)
Cash Out	200.0 - 462.5	0.0 - 29.0
Inter-Providers Money Transfer	125.0 - 375.0	0.0 - 10.0
Send Money	0.0 - 150.0	0.0
Bill Payment	0.0 - 100.0	0.0 - 10.0

* The service names used are those of MFS services, although in some cases, banks use different names.

For example, considering the highest transaction limit of MFS - BDT 25,000 - in a day, MFSPs impose a service charge ranging from BDT 200 to 462.5 for Cash Out, whereas banks charge a maximum of only BDT 29 for the same amount. Similarly, there is significant difference in service charges for other offerings, such as inter-provider transfers, send money, and bill payments.

Table 2: Comparative Analysis of MFS Service Charges for BDT 25,000 in Neighboring Countries*

Services	Bangladesh (bKash)	India (PhonePe)	Pakistan (Easypaisa)	Myanmar (WavePay)
Cash Out	372.5 - 462.5	0.0	355.7	231.3
Inter-Providers Money Transfer	250.0 - 312.5	0.0	0.0	75.2
Send Money	0.0 - 5.0	0.0	0.0	0.0
Bill Payment	100.0 - 372.5	0.0	0.0	***

* The service charges were collected from the websites of the most popular MFSPs of respective countries (accessed on 22/2/2025) and converted into BDT

Compared to the most popular MFSPs in neighboring countries of Bangladesh, Bangladeshi MFSPs charge more. Bangladeshi MFSP charges range between BDT 372.5 - 462.5 for Cash Out of BDT 25,000, while the same service is free in India, costs BDT 355.7 in Pakistan, and

BDT 231.3 in Myanmar. In other service categories as well, Bangladeshi users consistently pay more.

In 2024, MFSPs are estimated to have imposed charges ranging from lowest BDT 4,410 crore to highest BDT 10,197 crore as service charges from personal account holders for Cash Out BDT 5.5 lakh crore, while commercial banks in Bangladesh charged account holders maximum of BDT 639 crore for equivalent cashing out or withdrawal.

Unable to ensure effective interoperability system

In November 2022, Bangladesh Bank and the Ministry of Information and Communication Technology Division launched an interoperability platform called *Binimoy*. Initially, three MFSPs, one e-wallet provider, and 12 banks were integrated into the system. However, the platform faces several operational challenges. Unlike the National Payment Switch Bangladesh (NPSB), *Binimoy* requires both sender and recipient to be registered as users and generate an alias, creating barriers to accessibility. Additionally, while MFSPs are charged BDT 0.50 per transaction through *Binimoy*, customers must pay a fixed charge of BDT 5 per thousand Taka. The platform is also inaccessible to feature phone users, limiting its inclusivity. Furthermore, reluctance among certain MFSPs to join or actively use the platform hampers its broader adoption.

Lack of effectiveness of MFS as a medium of remittance transaction

There is currently no mechanism to receive remittances directly through MFS; expatriates must send remittance via banks or intermediary institutions such as Western Union, Ria, MoneyGram, etc. On the other hand, high service charges, limited publicity, and low awareness have hindered the popularity of legal remittance transfers via MFS. Only 6.4% of personal account holders or their family members reported in the survey that they received remittances legally and on time. Personal account holders in rural areas (6.1%) received remittance at a lower rate compared to those in urban areas (6.8%). Conversely, MFS is frequently used to distribute remittances sent through informal and unauthorized channels, such as *Hundi*.

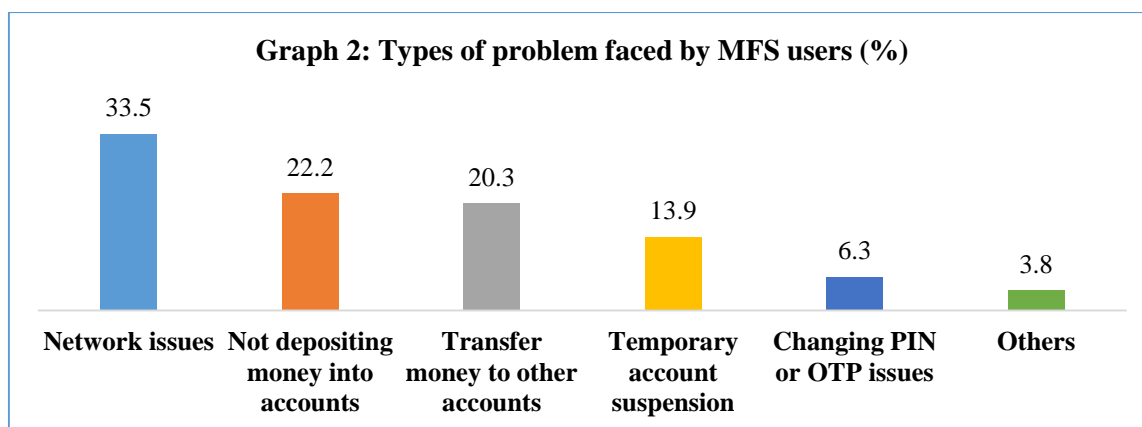
Limitations in detecting and preventing suspicious transactions and *Hundi*

MFSPs' capacity to detect and prevent suspicious transactions and hundi remains limited. Between 2011 and 2024, only six distributors and 5,029 agent accounts were suspended for such activities. The submission of Suspicious Transaction Reports (STRs) and Suspicious Activity Reports (SARs) to the BFIU was extremely low, compared to the high transaction volumes during the above-mentioned time, which was less than 0.001% of total transactions in 2023. The number of reports remains low - ranging from 451 in 2022 to 1,134 in 2023, and 1,107 by December 2024 (up to 23rd December). Moreover, the absence of a centralized sanction or blacklist system allows suspended clients to open accounts with other MFSPs, increasing vulnerability to repeated financial offenses.

There is a significant gap in training among agents and distributors regarding the prevention of suspicious transactions, hundi, and terrorist financing. Survey data reveals that 78.6% of agents received no training on hundi or money laundering, while 90.3% lacked training on identifying suspicious transactions or countering terrorist financing. Agents often cite potential loss of income and disruption of working hours as reasons for avoiding training. Meanwhile, MFSPs do not take any visible initiatives to prevent hundi, and have only made minimal efforts to raise public awareness on these issues.

Unable to ensure effective customer services

According to the survey, 14.3% of personal account holders encountered difficulties while using MFS.



Of these, 33.5% reported network issues, 22.2% experienced delays or failures in depositing funds into recipient accounts, 20.3% lost money due to transfers to incorrect numbers, and 13.9% faced problems such as temporary account suspension. Female account holders (15.8%) reported a higher incidence of problems than male account holders (13.8%). Among those who experienced various problems, 41.2% attempted to report through different mediums - 57.7% to agents or distributors, 46.2% to customer service centers, and 21.2% via hotline number. However, 61.9% of complainants did not get any solutions from the MFSPs.

Challenges in ensuring inclusive services for Women and Marginalized Groups

Although ensuring financial inclusion for women and marginalized populations - especially individuals from low-income groups - is one of the primary objectives of mobile financial services (MFS), various challenges still exist in achieving this goal. In Bangladesh, the inclusion of women among MFS users remains significantly low according to a report by Bangladesh Bank (58.4% of registered MFS account holders are men, while only 41.6% are women).

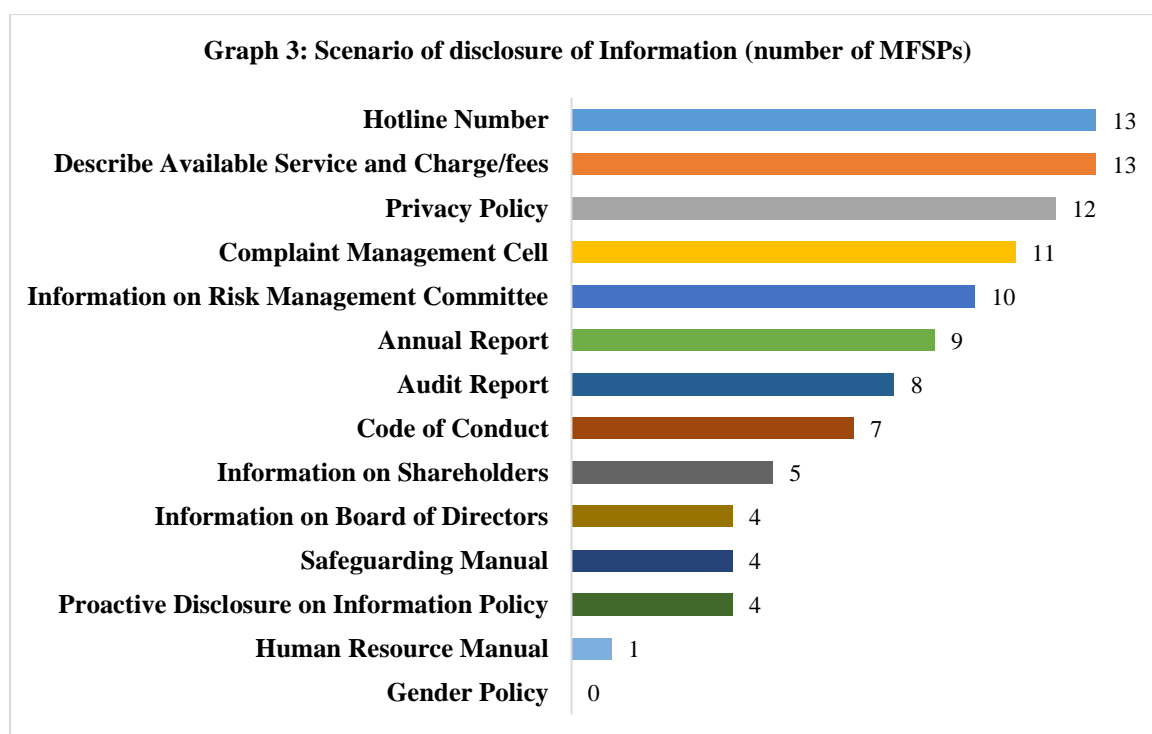
The MFS apps and USSD platforms are not user-friendly for visually impaired or person with disabilities (PWD). Most applications and their menus are based in English, making them difficult to understand for illiterate or low-educated users. Survey data reveals that 65.7% of personal account holders in rural areas relied on assistance from others to open their MFS accounts. Additionally, the rate of transactions conducted through apps is lower in rural areas (36.4%) compared to urban areas (49.9%). As rural customers are often compelled to use USSD codes for transactions, they have to bear higher fees/charges compared to urban users. The high cost of MFS has placed an extra financial burden on marginalized and low-income groups. According to the survey, 86.7% of female account holders and 75% of rural account holders thought the service charges are too high for them.

2.3 Transparency:

Lack of information disclosure

A lack of transparency in the MFS sector in Bangladesh has been observed as a significant governance challenge. A key concern in this regard is the absence of dedicated websites for nine bank-led MFSPs, which significantly limits access to essential information for both customers and stakeholders. Furthermore, the sector is marked by a lack of public disclosure

concerning operational agreements. Notably, agreements between Nagad Limited and the Directorate of Posts, as well as agreement between Bangladesh Bank and Velwire Limited and Prime Holding LLC, remain undisclosed. Similarly, significant gaps are evident in the information disclosure practices of MFSPs.



Most MFSPs do not publish key documents such as gender policies, human resource manuals, proactive disclosures policy, or details on their boards of directors on their websites. In contrast to commercial banks, which typically provide comprehensive customer transaction reports on a regular basis, most MFSPs limit access to transaction data to a three- to six-month window. Additionally, MFSPs unnecessarily delay in responding to customer information requests, in some cases they provide incomplete data. Moreover, most MFSPs do not disclose the number of their active customers.

2.4 Corruption and Irregularities:

Non-compliance with regulations related to business approval/license

Although the 2018 regulations prohibit entities other than banks from registering as MFSPs and obtaining approval from Bangladesh Bank, the central bank has deviated from these rules by allowing the Directorate of Posts' mobile financial service, *Nagad*, to operate. Furthermore, while the regulations only permit the establishment of infrastructure under a No Objection Certificate (NOC), *Nagad* has been carrying out full-scale operations, including customer onboarding under an NOC. Bangladesh Bank has not taken stringent measures to address this regulatory breach. Additionally, despite the absence of any provision for interim licensing within the existing regulatory framework, Bangladesh Bank granted an interim license to the Directorate of Posts to operate *Nagad* and subsequently extended this license six times between 2020 and 2024, contingent on the formation of a subsidiary.

Non-compliance with regulations related to the operating process

The Directorate of Posts' digital service, *Nagad*, has been operating through an agreement with Third Wave Technologies Limited (also known as Nagad Limited), bypassing the legally

mandated requirement to establish a subsidiary - constituting a clear violation of existing regulations. Moreover, the contracted company has unilaterally made key decisions related to service charge, financial management and other operational policies of *Nagad*, without seeking approval from or involving the Directorate of Posts in the decision-making process.

Non-compliance with regulations related to 'e-money' and 'trust-cum-settlement'

Third Wave Technologies Limited, the contracting entity operating *Nagad*, has violated the 'e-money' and 'trust-cum-settlement' or 'trust fund' provisions of the Bangladesh Mobile Financial Services (MFS) Regulations, 2022 by creating an additional BDT 645 crore in e-money. This action posed a significant risk to customer funds. Additionally, the entity used client deposits held in the 'trust-cum-settlement' account as collateral to secure a loan from a commercial bank - an explicit breach of existing MFS rules. In response to objections raised by Bangladesh Bank, the Directorate of Posts assumed responsibility for loan's repayment.

Establishing ownership and operating the business through undue processes

In violation of existing legal provisions, Third Wave Technologies Limited established de facto control over the operations of *Nagad* through a revenue-sharing agreement - without forming an independent subsidiary or appointing a separate board of directors as required. The company later rebranded itself as Nagad Limited, attempting to appropriate the identity of the state-owned MFS platform. It also registered the copyright, patent, trademark, and logo of *Nagad* in its own name and changed the official logo without prior approval from the Directorate of Posts. Further concerns emerged as Nagad Limited (previously known as Third Wave Technologies Limited), reportedly backed by the Member of Parliament of the former ruling party and their associates, secured registration for two public limited companies - Nagad Digital Bank PLC and Nagad Finance PLC - through the RJSC and Bangladesh Bank, allegedly using political influence. Statements from Nagad Limited's leadership reinforced its intention and plan to run *Nagad* as a subsidiary of Nagad Digital Bank PLC.

As a preventive measure, in response to irregularities and corruption in the operation of 'Nagad,' Bangladesh Bank appointed an administrator to Nagad Limited in August 2024 and formed a management board in September 2024. Later, a former director of 'Nagad' - listed as an accused in Nagad's corruption case - was appointed as the Chief Executive Officer (CEO) after obtaining a stay order from the High Court. Subsequently, attempts were made to obstruct Bangladesh Bank's access to Nagad's financial operations and to prevent the forensic audit of Nagad by filing a writ petition in the Supreme Court of Bangladesh, which was ultimately rejected by the High Court Division.

Fraudulence and bribery transactions using MFS

The incidence of various forms of financial fraud and scams conducted through MFS is rising at an alarming pace. The lack of an effective system of checks and balances within institutions operating in this sector creates vulnerabilities that fraudsters exploit to misappropriate customer funds. In numerous instances, current or former employees, agents, and distributors of MFSPs have been found to be providing sensitive customer account information to fraudsters in exchange for financial gain, or directly participating in fraudulent schemes. In some cases, fraudsters tactfully collected customers' transaction information from agent points to embezzle customer money. The identification of perpetrators is further hindered for the existing opportunity to open new accounts using National IDs unlawfully obtained from others, frequently through illicit methods. Additionally, MFS platforms are increasingly being utilized as convenient channels for bribery, extortion, and ransom payments. Notably, the absence of

the requirement to link MFS transaction details with income tax returns has enabled certain corrupt government officials and employees to exploit the system for illicit financial transactions.

Table 3: Percentage of personal, agent and merchant account holders who are victims of fraud and deception (%)

Description	Personal Account Holders	Agent	Merchant Account Holders
Victim of fraud and deception	6.3	17.0	1.6
Victim of Financial loss due to fraud	3.6	8.7	1.4

Survey findings show that, 6.3% of individual account holders, 17.0% of agents and 1.6% of merchants reported being victims of fraud during the study period. Among them, 3.6% of individuals, 8.7% of agents and 1.4% of merchants incurred financial losses. Personal account holders experienced financial losses due to fraud and scams ranging from a minimum of BDT 300 to a maximum of BDT 83,000. Agent account holders faced losses between BDT 200 and BDT 376,000, while merchant account holders incurred losses ranging from BDT 53 to BDT 45,000. Among the common fraudulent activities reported were extorted through deceptive or false information (52.6%), deception via phone calls or SMS (42.1%), and fraud through hacking (12.3%). Despite these significant losses, only 7.6% of individual account holders, 27.4% of agents, and 4.2% of merchants filed a case or General Diary (GD) with the relevant police authorities.

Money laundering and online gambling transactions through MFS

The involvement of MFSPs such as *bKash*, *Nagad*, *Rocket*, and *Upay* in online gambling, gaming, and betting activities is growing steadily in Bangladesh. These illegal transactions increase significantly during major cricket events like the India Premier League (IPL), Bangladesh Premier League (BPL), and World Cup (both cricket and football). Despite periodic efforts by regulatory bodies to block gambling-related websites, apps, Facebook pages and YouTube channels, MFSPs have largely failed to implement effective internal mechanisms to curb such misuse of their platforms especially as they take no initiative to prevent their names from being used on betting websites.



Agents facilitating gambling and betting operations are active nationwide, enabling a network that extends beyond local betting into broader money laundering schemes. Increasingly, these operations involve the use of MFS to purchase U.S. dollars, convert them into cryptocurrencies such as Bitcoin, and smuggle funds out of the country. According to the CID, it is estimated that around \$7.8 billion (approximately BDT 75,000 crore) was laundered through MFS in 2022. MFSPs have attributed this alarming trend to weak transaction monitoring, failure to blacklist mobile phone numbers and NIDs involved in illicit activities, and poor implementation of Customer Due Diligence (CDD) and Know Your Customer (KYC) protocols. Consequently, individuals previously involved in financial crimes can easily re-enter

the system through different MFSPs, posing a significant threat to the country's financial integrity and security. Recently issued Cyber Security Ordinance 2025 considers online gambling and betting as a punishable crime and government detected more than thousands of MFS agents involved in online gambling. According to Bangladesh Bank, the amount of remittances received by MFS through legal channels has increased due to the decrease in hundi/illegal remittances after the recent political changes.

Exploiting the distribution of allowances and stipends through undue influence

In 2018, in collusion with certain officials from the Ministry of Primary and Mass Education, *Rupali Bank SureCash* was awarded the responsibility of distributing education stipends. This decision was marred by irregularities, including unauthorized foreign trips taken by 12 involved officials in exchange for approving a higher service fee. Later, in 2022, the distribution of 75% of social safety net allowances and 100% of secondary education stipends was assigned to *Nagad*—bypassing standard government procurement procedures and allegedly driven by political influence. This move significantly boosted *Nagad*'s market share over the subsequent three years. According to survey data, *bKash* remains the most widely used platform for receiving social security allowances and education stipends (59.2% and 56.5%, respectively). However, *Nagad* has rapidly gained ground, capturing 38.2% of allowance distributions and 40.7% of stipend transfers - largely due to politically influenced decisions. Notably, during implementation, recipients were required to open *Nagad* accounts without their informed consent. According to Bangladesh Bank, Nagad Limited - the contracted entity operating under the brand *Nagad* - misappropriated a total of BDT 1,711 crore in social safety net allowances and stipends through illegal activities carried out via 41 unauthorized distributors.

Irregularities and corruption related to interoperability platform

Despite the existence of the National Payment Switch Bangladesh (NPSB), Bangladesh Bank launched the *Binimoy* platform at an estimated cost of BDT 65 crore under the influence of the Information and Communication Technology (ICT) Division, Ministry of Posts, Telecommunications and Information Technology. The initiative involved several former ministers and politically influential individuals. A unilateral agreement was signed with Velware Limited and Prime Holding LLC to operate the *Binimoy* platform, reportedly to serve the interests of a former state minister. Furthermore, Bangladesh Bank granted undue privileges to the contracting firms by exempting them from liability for operational failures and omitting standard cancellation clauses from the agreement.

Money laundering and unauthorized cross-border transactions through MFSP

According to media reports, approximately BDT 2,356 crore - misappropriated through financial fraud related to the distribution of allowances and stipends, as well as the irregular creation of additional e-money - was allegedly laundered abroad through anonymous shareholders of Nagad Limited. In a separate instance, *bKash* entered into a 'Regional Brand Partnership' agreement with the Argentine national football team, for which it initially received verbal consent from Bangladesh Bank. However, the central bank formally informed them about their objection to the associated payment. Despite this, *bKash* proceeded to remit the agreed amount - totaling USD 410,000 - under the guise of a donation through a foreign investment entity. This transaction was flagged in a Bangladesh Bank report as a clear violation of the Foreign Exchange Regulation (Amendment) Act, 2015.

Lack of compliance with advertising and marketing policies

In various promotional materials - including leaflets, banners, festoons, and billboards - both *bKash* and *Nagad* have disseminated misleading and negative information about each other, in violation of the National Broadcasting Policy, 2014. Furthermore, the Police Bureau of Investigation (PBI) submitted a report to the court following an inquiry into a social media campaign allegedly orchestrated by *bKash* employees, influencers, and supporters to discredit *Nagad*. Although the court subsequently summoned the involved *bKash* employees, there is no information on any punitive action being taken against them.

Additionally, there have been instances of strategically misleading advertisements, particularly those related to service charge. For example, a widely circulated campaign claiming "cost reductions" misled certain MFSP customers regarding actual charges. Despite these breaches, regulatory authorities - including Bangladesh Bank and the Bangladesh Competition Commission - have not taken any substantive punitive measures, issuing only warnings in response.

Challenges in regulatory activities

Several critical challenges have been identified in the performance of institutions responsible for regulating and supervising the MFS sector. Despite repeated violations of existing regulations by various MFSPs, key regulatory bodies - particularly Bangladesh Bank and the BFIU - have failed to take timely and effective enforcement actions. According to media reports, *Nagad* allegedly funded personal overseas travel for the former head of the BFIU in an attempt to conceal financial irregularities. Additionally, potential conflicts of interest and ethical lapses are evident in cases where senior officials transitioned into roles within the MFS sector shortly after retirement. Notably, a former Executive Director and a Director of the Payment Systems Department (PSD) of Bangladesh Bank reportedly joined *bKash* and *SureCash*, respectively, within a year of their retirement, while a Deputy Governor assumed a position at *Upay* immediately after retirement.

Allegations have also emerged against officials of the regulatory authorities, accusing them of receiving a portion of illicit proceeds derived from online gambling, foreign exchange trading, and cryptocurrency platforms. Furthermore, while the Criminal Investigation Department (CID) has submitted some recommendations to Bangladesh Bank to take actions against MFSPs for not taking preventive measures against the accused customers involved in *Hundi* and online gambling activities, no action has yet been taken by Bangladesh Bank against those MFSPs.

2.5 Accountability:

Lack of effective complaint lodge and redress mechanism in MFSPs

Although MFSPs operate dedicated hotlines for receiving and resolving customer complaints, they are not effective, since a substantial portion of users do not lodge complaints even after falling victim to fraud or scams. Survey data reveals that 58.8% of personal account holders, 60.9% of agents, and 58.3% of merchant account holders chose not to file any complaints. The primary reasons cited for this decision include a perceived lack of benefit in filing complaints - reported by 65.8% of personal account holders, 55.3% of agents, and 66.7% of merchant account holders. Additionally, the complaint resolution process was viewed as overly time-consuming by 30.1% of personal account holders, 25.9% of agents and 25.0% of merchants. A notable number of respondents also refrained from filing complaints because they believed the fault was their own - 23.3% of personal account holders, 15.7% of agents and 16.7% of

merchant account holders. Among those who did file complaints, only 38.1% of personal account holders and 20% of merchants reported receiving a satisfactory resolution.

Lack of complaint lodge and redress mechanism within regulatory authorities

According to the survey, only 6.2% of personal account holders, 13.4% of agents, and 10% of merchant account holders are aware of Bangladesh Bank's Customer Interest Protection Centre (CIPC). However, the majority of victims are either unaware of the complaint submission process or do not feel encouraged to report grievances. Institutional grievance redressal mechanisms at the BFIU are inadequate in cases of serious offences such as online gambling, money laundering, or *Hundi*-related activities. In particular, the absence of a 24/7 operational hotline makes it difficult for general customers to report such incidents promptly.

Deficiencies in financial audit and monitoring systems

In the mobile financial services sector, the financial activities of agents and distributors are not subject to regular audits, representing a major gap in accountability. Most MFSPs do not directly supervise agents but instead rely on contracted distributors for monitoring, which reduces the effectiveness of oversight and leaves room for financial irregularities, fraud, or misconduct at the agent level.

3. Overall Observations

The MFS sector in Bangladesh is marked by alarming deficits across all key indicators of good governance, including irregularities and corruption. The research highlights a lack of long-term strategic planning in the development and growth of the sector. Instead, there is a prevailing tendency toward adhoc decision-making, weak policy frameworks, legislative gaps, and the undue influence of political and vested interest groups. A concerning tripartite alliance among certain MFSPs, regulatory and monitoring authorities, and politically influential actors has captured policy, manipulate oversight mechanisms and exploit state institutions to monopolize control over the sector. This capture has undermined fair competition and hindered the sector's sustainable growth. Due to the absence of good governance, customer interests have been neglected - a financial burden has been imposed on the customer by charging high service rates, and the sector has failed to deliver on its promise of inclusive financial services, particularly for women and marginalized populations. Moreover, it has created avenues for the misappropriation of customer deposit and the public funds. The lack of data protection and increased financial risk have further compromised customer trust, while affordable and efficient services remain out of reach for many users. Finally, there is a growing and deeply concerning trend of MFS being used for illegal financial activities such as money laundering, bribery, online gambling and betting, terrorist financing, and cryptocurrency transactions.

4. Recommendations

1. A dedicated act must be enacted for the mobile financial services sector to ensure fair competition, financial inclusion, transparency, accountability, and good governance. The following key elements should be incorporated into the law:
 - Clearly define the roles and responsibilities of all relevant stakeholders.
 - Establish a robust operational and management structure for MFS based on international best practices.
 - Ensure transparency in the board formation process and include mandatory representation of customers on the board.
 - Mandate the participation of all institutions in interoperable transaction systems.
 - Guarantee the security and protection of customer data, along with effective mechanisms to prevent fraud and scams.
 - Set clear guidelines and monitoring mechanisms for service charges and commission rates for agents and distributors.
 - Define a standardized process for the appointment and supervision of agents and distributors, and make training mandatory for them.
2. The Money Laundering Prevention Rules, 2019 should be amended to allow BFIU intelligence reports to be admissible as evidence in court, and provisions should be included to permit direct communication between the BFIU officials responsible for preparing intelligence report and officials of investigating agencies, when necessary.
3. A specific policy framework must be developed for the use of artificial intelligence (AI) in generating suspicious transaction reports and resolving customer issues.
4. A universal code of conduct must be formulated for agents and distributors.
5. A provision should be introduced mandating the submission of Mobile Financial Services (MFS) account statements, where applicable, alongside bank statements in the income tax return filing process.
6. All contracts in the MFS sector must be made publicly accessible, and any agreements contrary to the public interest should be reviewed and either revised or revoked following proper evaluation.
7. In the interest of consumers, service charges must be significantly reduced, and the interoperability of transactions among financial institutions must be made easier and more affordable.
8. MFS providers and the BTRC must take effective action to prevent the promotion of online gambling and betting websites or apps that display the names and logos of MFS providers.
9. A centralized and regularly updated database of suspicious transactions, including information on blacklisted customers, must be established, and all MFS providers must be granted access to it.
10. Ensure customers have free access to view, download, and obtain their account statements for a period of one year.
11. Launch comprehensive nationwide awareness campaigns across diverse platforms - including print and electronic media, social media, and websites - to educate the public on the secure and responsible use of MFS.
12. To strengthen and streamline complaint resolution, the hotline number of Bangladesh Bank's Customer Interest Protection Centre (CIPC) should be made toll-free.

Additionally, it must be mandatory to prominently display the hotline numbers of both the respective MFSP and the CIPC at all agent locations and customer service points.

13. Simplify and standardize the complaint submission process for customer grievances, fraud, and scam-related issues across all MFSPs, Bangladesh Bank, and relevant law enforcement agencies.
14. Ensure impartial and thorough investigations into all irregularities and corruption within the MFS sector, with strict and exemplary action taken against all individuals or groups involved - regardless of their status or affiliation.
