

CHALLENGES OF THE THIRD PARTY DISTRIBUTION AND MANAGEMENT MODEL: A CASE STUDY ON bKASH

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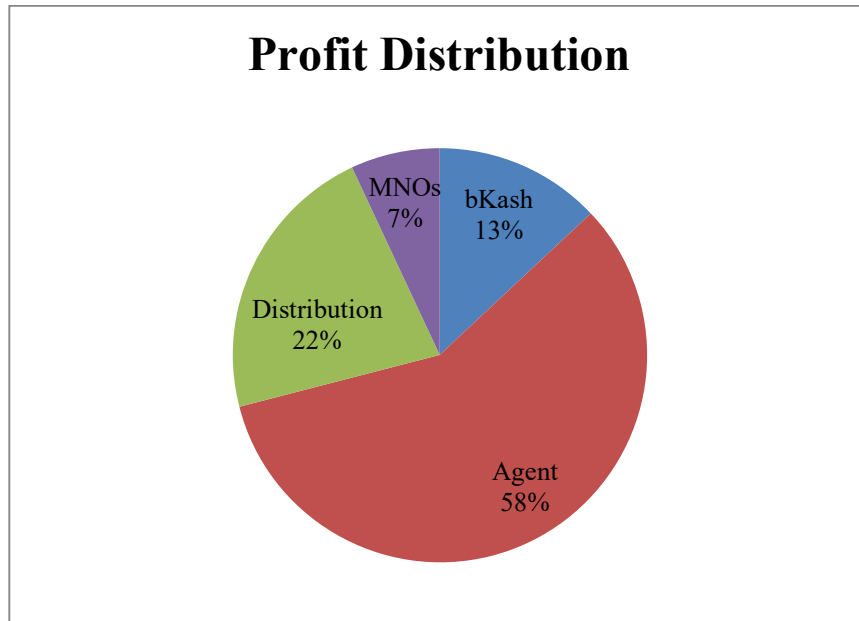
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bKash is a mobile financial service (MFS) company. They launched in Bangladesh in 2011. MFS, as many of us already know, combines banking with mobile networks which enables users to make deposits, withdraw, and to send or receive funds from a mobile account (Nabi et al, 2012). Firstly, we need to understand where the idea of MFS stems from. According to the World Bank, Two billion people worldwide currently lack access to regulated financial services. Underlying financial infrastructure widely available in rich countries is still not available to many people in developing countries (Grandolini, 2015). Basically there remains a significant gap in financial inclusion. This brings us to MFS which is presently an important component of Africa's financial services landscape with Asia following its footsteps (Chironga, Grandis, and Zouaoui, 2017). MFS has been a game changer for Bangladesh too with bKash operating in the country focusing on the people (70% of total population) living in rural areas with limited access to formal banking services.

bKash incorporates a distribution centric model also known as the third party model. It provides services to its clients mainly through commission based agents instead of payroll employees typically assigned by other business organizations. It is said to be a cost saving mechanism for the company.

bKash has around 216 third party distributors nationwide that involve around 180 thousand third party agent points. Distributors and Agents work as communicators between the company and the clients. After the clients are brought in through registration, they earn a cash lump sum from bKash and from each transaction the client makes, bKash keeps a small percentage share (1.8%). Agencies visit door to door to communicate and persuade customers to open bKash accounts and discuss various schemes and benefits. bKash utilizes its third party agencies to reach out to different corporate, big clients as well i.e. restaurants, departmental stores etc. and set up collection/payment points. General customers are allowed to make deals and partner with bKash for payment solutions. For high value clients, bKash assigns their key personnel to make the deals and provide lucrative customized solutions.

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The third party model has several benefits. For example, BRAC bank employs around 4,000 employees throughout the country whereas bKash only employs around 800 employees. However, bKash engages around 180 thousand agents countrywide. As a result, with lesser payroll employees and expenses they reach a bigger number of clients.

Their distribution model also provides employment to a lot of people of the country through their agent points.

However, success of mobile banking primarily depends on policy and regulation (Sultana, 2018, p. 4). Therefore, it is important to review bKash's business model in light of the regulatory framework. bKash's business model poses certain compliance and regulatory challenges to the company's management. Since these agencies are not bKash's direct employees, they lack accountability and transparency. Agencies sometimes collect fake and incomplete information in order to meet their targets. Nevertheless, verification of client information is easy for the company now that they have access to NID database. bKash is not the first company to adopt a third party model. British American Tobacco Bangladesh, Unilever Bangladesh and several other companies have a similar model. However, as bKash's product (money) is risk sensitive, Bangladesh Bank constantly monitors and imposes strict regulatory guidelines on the company. Even though it is the agencies to blame for wrong

information, the responsibility ultimately falls on bKash. Moreover, Bangladesh Bank imposed strict limitations on per transaction amount. It caused issues with big value orders from vendors i.e. HATIL where furniture purchases easily exceed the bKash order limit of BDT 20,000. Another regulatory challenge the company often has to deal with is the unauthorized remittance transfers from abroad through Hundi. People primarily favors bKash for its excess mobilization of money transfer.

bKash deals with several sustainability related challenges as well. In many cases, corporate clients prefer bKash officials instead of agencies resulting in lost sales. At times, clients require constant support from bKash to survive in meeting their own operation costs. There are also differences in operations compared to Fast Moving Consumer Goods (FMCG) companies. In the case of agencies working with Fast Moving Consumer Goods companies, they have less regulations to deal with from authorities i.e. Bangladesh Bank. MFS having to comply with strict central bank regulations causes agencies' business operations to be more complex and expensive. Therefore, many agencies prefer dealing with partners from other industries. Furthermore, MFS industry is going to get more competitive in the near future. By now approximately 18 commercial banks are prepared to enter the market. Mobile phone operators i.e. Grameen Phone already has the capacity and resources such as huge client base and biometric database to enter market (Currently pending approval from regulators).

While the compliance and regulatory guidelines seem like obstacles, we need to understand that these factors play a crucial role in protecting stability of the overall financial system and by being compliant bKash proves itself to be a credible entity for monetary transactions. Since, bKash's business model involves high upfront investments and low margin per transactions, large volumes are needed to recover investment. As the company's outreach is big, the model so far has been effective in terms of cost recovery. bKash's overall future looks good thanks to their third party distribution and management model and high adaptability to the ever-changing market and regulatory instructions.

CASE QUESTIONS

- Suppose you are planning on launching an MFS company in Bangladesh, taken into account the lessons from bKash, what are the regulatory challenges you should consider while designing your business model?
- What does the future of mobile banking industry in Bangladesh look like in terms of business sustainability? Describe briefly.

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