COVID-19 and FinTechs in Bangladesh—impact and resilience

A collaborative FinTech landscape study to understand the impact of the pandemic and resilience of the FinTech ecosystem across Bangladesh

October, 2021

VISA | MSC MicroSave Consulting

About this report

- Since March, 2020, the COVID-19 pandemic has severely impacted the country's overall businesses.
- The fear of lockdowns and extended periods of restrictions on movement led to anxiety about losses in business and shortened runways, especially for small enterprises and startups, including FinTech startups.
- In this report, we assess the impact of the COVID-19 pandemic on the FinTech ecosystem of Bangladesh.
    - How has the pandemic affected FinTechs?
    - What measures have policymakers taken?
    - Are these measures impactful for FinTechs?
    - What are the investor sentiments for this sector?
- This report is the second in the series and covers the impact of COVID-19 for January-June, 2021. MSC's first report examined the impact of COVID-19 from April-December, 2020.
- The report draws insights from our discussions with a mix of FinTechs from early, growth, and mature stages, alongside other players in the ecosystem. We have also analyzed data gleaned from other credible public sources of information, such as Bangladesh Bank, industry reports on FinTechs, and leading national news outlets.

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MSC and Visa conducted a countrywide study to gauge the impact of the pandemic on FinTechs

Key objectives of the study

1. Assess the impact of the COVID-19 pandemic on the business of FinTechs
2. Understand how COVID-19 has impacted early-stage, growth-stage, and mature startups
3. Understand the coping strategy of established FinTechs and their plans for sustainability
4. Understand and assess the policy response of the government and regulators for FinTechs
5. Understand significant policy-level changes requested by FinTechs and startups industry associations
6. Disseminate study findings through an international webinar to inform providers, donors, and regulators about the support FinTechs require to navigate through these troubled times

Structure of the report

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Section 1: Executive summary

Executive summary

The startup ecosystem in Bangladesh:

- As per the Bangladesh Startup Ecosystem Report for 2021, the entrepreneurship ecosystem in the country is at an inflection point. In the past decade, it attracted investments worth USD 330 million. A large part of that investment, worth USD 200 million, reached industries like FinTechs, logistics, and mobility in the past five years.
- Bangladesh houses more than 1,200 active startups that cumulatively employ 1.5 million people. Startups now touch the lives of the average Bangladeshi through their products and services. Angel investor networks, startups, and incubators have contributed to this progress.
- Out of these startups, an estimated 112 FinTech startups are in Bangladesh.
- Bangladesh Securities and Exchange Commission (BSEC) has also approved small-cap stock exchange guidelines. This crucial step will provide investors an option for startup exit through initial public offerings (IPO) under both fixed price and book-building methods.
- Despite ranking 61st in the world and 13th in Asia in FinTech World Ranking, Bangladesh is gradually becoming a rising FinTech star in Asia.
- The current startup ecosystem in Bangladesh is valued at USD 1.45 billion and could reach a valuation of USD 10 billion by 2025.

Enter the pandemic:

- Since March, 2020, COVID-19 has disrupted and severely impacted the country's businesses and startups.
- The pandemic had a profound impact on FinTechs in Bangladesh.
- On the one hand, it has forced many companies to stop operations, lose revenue, or reach the end of their runway.
- On the other, the disruption accelerated the adoption of digital services. Accordingly, digital financial services, logistics, grocery on-demand, EdTech, and HealthTech witnessed steep growth.
- FinTechs in Bangladesh now find themselves in a precarious yet opportune position. If they can navigate the ongoing pandemic effectively, they can unlock massive potential for growth in the Bangladesh market.

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Executive summary

Phase: 1 April ’20 - December’20

Phase: 2 January ’21 - June ’21

- MSC conducted a two-phased study to understand the impact of COVID-19 on FinTechs over the past 12 months. The report from phase 1 addressed the impact of COVID-19 on FinTechs during the early days of the pandemic. The phase 2 study has led to this current report.
- This report[1] is based on discussions with stakeholders from the FinTech and startup ecosystem. It complements the findings from the first phase of the study.

1. How COVID-19 impacted FinTechs

- **Digital payments increased:** Payment FinTechs, such as MFS providers, PSPs, PSOs, payment aggregators, and wallets enjoyed growth. However, other FinTechs that support banks and NBFIs or partner with retail merchants suffered because the pandemic devastated banks and micro-merchants.
- **Early-stage FinTechs struggled to survive:** Some of them found it difficult to launch their solutions and saw delays. Others struggled to keep up investor’s confidence.
- **Growth-stage FinTechs faced roadblocks:** They initially lost sales while keeping their burn rates constant. Talks of new investment fell apart. Their plans for break-even and scale-up were delayed by two or even three years.
- **Mature FinTechs experienced growth:** They had a massive inflow of customers and revenues. Managing these users posed a challenge to their tech capacity. They need to work on retaining these new users.

2. How FinTechs responded

- **Early-stage FinTechs restarted from scratch:** Many rebuilt their business models from the ground up. They also introduced niche products to find a way into a market dominated by larger FinTechs.
- **Growth-stage FinTechs focused on operational efficiency:** They lowered salaries and laid off employees. After 7-8 months of the pandemic, they reversed these changes. Many of them also pivoted to providing essential goods and services during the pandemic to recover lost sales.
- **Mature FinTechs increased capacity to sustain their growth:** They recruited more people, especially in tech teams. They also worked to improve their tech stack so they could smoothly handle the increase in traffic.

3. How the industry helped

- **Support from accelerators and incubators** helped build the resilience of early-stage FinTechs and provided advisory services.
- **Investors** helped growth-stage FinTechs to pivot and also guided them to digitize their operations. They helped mature FinTechs network with stakeholders and search for bridge funds.
- **The government provided funding for startups.**
- **BB[2] released supportive guidelines for FinTechs to refinance funds and startup-friendly policies.**

[1] Impact of COVID-19 on FinTechs – Bangladesh, MSC (2021) | [2] Bangladesh Bank

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Executive summary

4. How customer sentiment changed throughout the pandemic

- **Embracing new normal**: People have grown more resilient with lessons from more than 18 months and after some 1.4 million COVID cases. They are gradually returning to their regular consumption patterns.
- **A surge in digital payments:** Digital payments and online sales remain high (see Annex) as people have embraced convenience.
- **Improved public perception of FinTechs:** Consumers, regulators, and thought-leaders praised the role of FinTechs in supporting the nation during these challenging and uncertain times.

5. What support FinTechs need to move forward

- **Early-stage FinTechs restarted from scratch:** Many rebuilt their business models from the ground up. They also introduced niche products to find a way into a market dominated by larger FinTechs.
- **Growth-stage FinTechs focused on operational efficiency:** They lowered salaries and laid off employees. After 7-8 months of the pandemic, they reversed these changes. Many of them also pivoted to providing essential goods and services during the pandemic to recover lost sales.
- **Mature FinTechs increased capacity to sustain their growth:** They recruited more people, especially in tech teams. They also worked to improve their tech stack so they could smoothly handle the increase in traffic.

COVID-19 pandemic

Negative impacts
- Decreased investments
- Reduced sales of certain categories, such as ride-sharing, retail micro merchants, and non-essential goods in general

Positive impacts
- Increased digital payments
- Increased digital sales
- Growth of customer base
- Supportive policies by the government and BB

Recovery

Mitigate negative impacts
- Pivot business model
- Avail incubation support
- Adopt digital-first approach
- Source alternate investment
- Diversify product portfolio

Sustain positive impacts
- Integrate value chain
- Form strategic partnerships
- Optimize tech stack
- Utilize government facilities
- Test new use-cases

Post-pandemic resiliency

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Section 2:
Coping strategies adopted by FinTechs

The pandemic affected FinTechs in different ways, depending on their stage of operation

- As part of this study, MSC interacted with different types of FinTechs. We categorized these FinTechs into three stages based on their current monthly revenues and number of customers. We held detailed discussions with 12 startups spanning different stages: Apon Wellbeing, bhalo Social Enterprises, CashBaba, Dana FinTech, Microinspire, Nagad, PayWell, shurjoPay, SSL Commerz, TallyKhata, Shadhin, and upay.

Early-stage FinTechs

Monthly revenue:
USD 0 - USD 10,000
Customers: 0 - 4,000

- Struggled for survival
- Adopted cost-saving methods and deferred any investment in the business
- Gained negligible revenue or in pre-revenue phase of their operations
- Forced to innovate and operate in a niche market, such as credit for AgTech and P2P lending

Growth-stage FinTechs

Monthly revenue:
USD 10,000 - USD 500,000
Customers: 150 - 12,000

- Worked toward a leaner business model
- Recovered after the first phase of the pandemic from April-December, 2020
- Sought funding to develop new technology, digitally transform the operation, and innovate new products
- Adopted cost-saving measures such as pay cuts and leaner business processes

Mature FinTechs

Monthly revenue:
USD 500,000 and more
Customers: 200 - 14 million

- Experienced rapid growth in terms of revenue, number of users, and employees
- Struggled to manage the surge in customer base
- Preserved cash-flows during the pandemic through investments and partnerships
- Trying to build transformative solutions to ensure that growth sustains over the next few years.

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Early-stage FinTechs found themselves in an uphill climb for survival, with many left behind as they could not weather the initial storm

Who are they?	How were they affected?	What is their recovery strategy?
• Less than USD 10,000 monthly revenue • PSP, InsurTech, credit scoring, bookkeeping	• Delayed launch due to market challenges • Trailed other FinTechs in terms of market share • Break-evens got pushed further	• Streamline their processes to make them leaner • Find their niche market and expand their product line.

Impact on product or market

- **Competing with mature players:** Early-stage FinTechs found it tough to compete with mature players, which performed well in the first phase of the pandemic by capturing significant market share.
- **Blue ocean strategy:** Early-stage FinTechs are innovating to make their mark through novel products, such as a card product for withdrawing remittances from ATMs, a wallet product integrated with a bookkeeping suite, and buy now pay later.

Impact on the organizational culture

- **Employee retention:** Most FinTechs that survived after the first phase of the pandemic are not laying-offs staff now. However, they reduced their workforce in the first phase. As a result, the proportion of total employees reduced by 23% on average.
- **Pay cuts:** Only 25%[1] of Early-stage FinTechs enforced pay cuts to retain employees and prevent them from switching to competitors. The co-founders and senior leadership have shouldered most of the financial shocks.

Impact on the business model

- **Business model pivot:** Early-stage FinTechs had to rework their business models from scratch. They launched less profitable revenue streams just to stay operational.
- **New entrant's advantage:** Early-stage FinTechs lacked an established operational setup. Therefore, they had the flexibility to overhaul their operations with a digital-first revamp. The revamp included improvements to customer acquisition, payment collection, marketing, and service operations.

[1]MSC research

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Growth-stage FinTechs had to pivot their business models and adjust their growth strategy on the fly

Who are they?

- FinTechs with monthly revenue in the range of USD 10,000 – 500,000
- AgTech,P2P lending, consumer retail

How were they affected?

- As demand for essential goods and services soared, these startups started strategizing to enter the space with essential products.

What is their recovery strategy?

- Invest in technology to improve operational efficiency and scalability
- Diversify products and portfolio
- Secure additional funding to fuel their growth strategy

Impact on product or market

- **Shift in demand:** During the pandemic, people's consumption patterns changed with higher demand for essential goods and services.
- **Pivots:** As a result, FinTechs at the growth-stage had to add new features to their product lines to cater to the shifts in demand during the pandemic or explore new customer segments. For example, a retail FinTech expanded its product line to include nutritional and perishable goods to serve the customers' needs.

Impact on the organizational culture

- **Layoffs and recruitment:** Growth-stage FinTechs were forced to lay off 10%-15%[1] of their employees during the first phase. During subsequent phases, they hired back 2x-3x[1] the number of employees laid off.
- **Salary reductions:** During the first phase of the pandemic, 75%[1] of the growth-stage FinTechs resorted to reducing salary, especially for senior management and head office staff. Most of them have returned to earlier levels by now. Most FinTechs did not reduce the salary for field staff.

Impact on the business model

- **Liquidity crisis:** Growth-stage FinTechs faced severe cash-flow issues. They managed them through various cost-cutting measures, such as salary reductions. Compared to mature FinTechs, they suffered significant losses in revenue during the pandemic and had much higher burn rates than their early-stage counterparts.
- **Delayed breakeven:** Many Growth-stage FinTechs experienced delays in their break-even timing. Their primary focus from here on is not short-term profitability but growth.

[1]MSC research

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Mature FinTechs rode on the wave of a remarkable surge of customers in their platform

Who are they?

- FinTechs with monthly revenue greater than USD 500,000
- MFS provider, PSO, Payment service aggregator

How were they affected?

- The pandemic brought a massive influx of users to their platforms, testing the limits of their tech stack.
- They grew rapidly since then.

What is their recovery strategy?

- Secure meaningful partnerships with the value chain actors
- Build alternate distribution channels for existing product lines and also alternate revenue sources

Impact on product or market

- **User growth:** Active users of mature FinTechs grew in the range of 3x-20x[1].
- **Competition:** As the industry's overall pie expanded rapidly, mature FinTechs focused on grabbing the most significant piece possible with attractive promotions and innovative features for existing products.
- **Cross-selling:** With a massive inflow of users, these FinTechs launched products to capitalize on any cross-selling potential. These include payment links, digital EMI, free P2P transfers, COVID-19 test fee payment.

Impact on the organizational culture

- **Employee size:** The organization's size in employee strength grew between 25%[1] and 300%[1]. They bolstered their senior leadership across business functions and hired entry to mid-level professionals in the tech team. This strengthening allowed the FinTechs to serve the surge in demand throughout the pandemic adequately.
- **Team composition:** The composition of the total workforce changed, with relatively fewer field force operatives and more people in the technology departments.

Impact on the business model

- **Cash flows:** Mature FinTechs enjoyed a period of aggressive growth during the pandemic (so far) with steady cash inflows.
- **Customer inflow and focus on retention:** As these platforms experienced a massive inflow of customers and traffic, they wish to lock in these users before focusing on scalability.
- **Partnerships:** These FinTechs now look to use the existing customer base and distribution network by forming partnerships with banks, MFIs, global payment networks, FMCGs, MNOs, or other FinTechs.

[1]MSC research

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In the second phase, FinTechs were more prepared compared to the first phase

Indicator	Findings from Phase 1 (April-December '20)[1]	Findings from Phase 2 (January-June '21)
Customer acquisition and traction	New customer onboarding was almost nil across all categories except some players in the e-commerce sector.	Early-stage FinTechs have not seen much change since Phase 1, but growth-stage FinTechs have acquired a significant bulk of customers, with some players increasing their user base by 3x-20x[2] .
Cost-cutting	FinTechs, especially those in the early stage, slashed up to 50% of their operating costs through 25-70% pay cuts.	FinTechs are no longer reducing staff salaries. Due to skill requirements, early-stage and growth-stage FinTechs could not afford to lay off some people or replace them with less costly alternatives. Instead, the growth-stage FinTechs now focus on making their operations leaner, thus reducing the cost.
Funding scenario	Investors were supporting only their portfolio companies for the time being, as opposed to making new investments. 60% of early-stage startups had less than three months of runway, threatening a massive number of direct and indirect job losses. 300 startups stared at losses in revenue worth USD 53 million	Local investment remains low, as with the first phase. However, a significant amount of global investments have flowed to FinTechs operating in spaces, such as MSME, agri-payments, P2P lending, and EdTech, • Early-stage FinTechs continued to seek funds. • Growth-stage FinTechs seek debt investment for working capital and equity investment to improve their tech stack. • Their funding needs are often too high for angel investors but too low for VCs. • Mature FinTechs have sought series A or pre-series B funds. Some larger FinTechs are still technically in the seed funding stage but have sizable investment support from shareholders.

[1]Impact of COVID-19 on FinTechs – Bangladesh, MSC (2021) | [2] MSC research

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In the second phase, FinTechs focused more on product innovation and brought in more tech

Indicator	Findings from Phase 1 (April-December '20)[1]	Findings from Phase 2 (January-June '21)
Employee cost and attrition	FinTechs slashed up to 50% of their operating costs through 25-70% cuts in staff pay. Payment FinTechs, owing to their more matured stage as compared to other FinTech-subcategories, did not introduce layoffs or furloughs. However, companies introduced pay cuts up to 50% to the existing employees as standard cost-cutting strategies across the board	• Early-stage FinTechs had to cut down on their human resources to minimize costs and survive. • The number of full-time employees reduced by 23.33%[2] since the beginning of the pandemic. • Growth-stage FinTechs implemented hiring freezes and some layoffs during the first phase of the pandemic. In the next phase, from January 2021, they started increasing their team sizes. They changed the salary grade in some cases, replacing employees with higher salaries with those with relatively lower pay. • The number of full-time employees grew by 24%[2] since the beginning of the pandemic. • Mature FinTechs saw a massive increase in sales and overall business volume. This increase gave them both the resources and the reasons to increase their number of employees. • The number of full-time employees grew by 59.40%[2] since the beginning of the pandemic.
Product innovation	FinTechs used this period to digitize their operations and innovate products and processes to make them more customer-centric during the pandemic.	• Early-stage FinTechs pivoted in terms of their business models. They made innovations in niche products, such as a card product for withdrawing remittances from ATMs, a wallet product integrated with a bookkeeping suite, and buy now pay later. • Growth-stage FinTechs pivoted from existing product lines to include essential products for COVID-19. • Mature FinTechs introduced new products, use-cases, and distribution channels to the market.
Consumer preference and sentiments	Customers prioritized buying essential items online over offline. E-commerce and digital payments brought more business for FinTechs.	Public perception has significantly changed when it comes to trust in FinTechs and digital payments. As a result, customers now buy a variety of items online. Our studies also indicate evidence of habit formation of some customers for utility bills and similar payments through digital channels, which is more substantial than pre-pandemic levels.

[1]Impact of COVID-19 on FinTechs – Bangladesh, MSC (2021) | [2] MSC research

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Section 3:
Policy changes affecting FinTechs

Regulatory support and FinTech innovation went hand-in-hand, helping people overcome challenges of pandemic

FinTechs made several innovations in the payment space of Bangladesh

- Due to government-imposed lockdowns or restrictions on physical movement, people had to rely on e-commerce services for most of their essential needs. Consumers and businesses relied more heavily than ever on digital payments throughout the pandemic (see Annex).
- Payment system operators (PSOs) started using link-based payments.
- Many f-commerce businesses conduct their operations informally through social media channels, such as Facebook and WhatsApp. They lack websites to integrate with a payment gateway. Even these merchants can take advantage of the benefits of digital payments through link-based payments.
- The government entrusted leading MFS providers to facilitate the digital transfer of relief funds and various social safety net allowances.
- Some FinTechs introduced cards for the LMI segment. The country has 25 million debit and credit cards issued against an adult population of 105 million. FinTechs hope to tap the entire addressable market through an accessible card product that people can use at any of the 82,000 point-of-sale (POS) devices in Bangladesh.

The Payment Systems Department (PSD) of the Bangladesh Bank released the following circulars to support innovations:

March 2020 — PSD Circular No. 01/2020
To restrain from giving banking services to unauthorized institutions that provides payment services as PSPs or PSOs

May 2020 — PSD Circular No. 05/2020
Guidelines for white-label ATM and merchant acquiring services

October 2020 — PSD Circular No. 07/2020
Launching interoperable transactions among banks and MFS providers through NPSB

October 2020 — PSD Circular No. 08/2020
Operating rules for Bangladesh Electronic Funds Transfer Network (BEFTN)

November 2020 — PSD Circular No. 09/2020
About opening of personal retail account

January 2021 — PSD Circular No. 01/2021
Guidelines for "Bangla QR" code-based payments

April 2021 — SMESPD Circular Letter No. 04/2021
Refinance fund titled "Startup Fund" worth BDT 5 billion by Bangladesh Bank of "startup fund" by scheduled banks from their own funds.

May 2020 — PSD Circular No. 06/2021
Guidelines for trust fund management in payment and settlement services

June 2021 — PSD Circular No. 08/2021
Policy on release of funds for digital commerce enterprises

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The government and regulators have played a catalytic role in the growth of the FinTech ecosystem thus far through several policy changes

Startup Bangladesh

- In March, 2020, the Government of Bangladesh (GoB) formed Startup Bangladesh, the venture capital fund of the ICT Division.
- Startup Bangladesh launched "ShotoBorsheShotoAsha" to invest USD 11.77 million (BDT 1 billion) in 50 startups in 2021.
- It announced the first series of investments of USD 1.75 million (BDT 150 million) for this initiative in seven startups in March, 2021.

Bangladesh Bank's startup fund

- Bangladesh Bank (BB) formed a USD-58.87-million fund to help startups in March, 2021.
- The BB will support and refinance banks so that they can disburse loans to clients and startups.
- New entrepreneurs can receive funds from this scheme at a maximum annual interest rate of 4% with a repayment tenure of five years.

eKYC through Porichoy

- Porichoy is a real-time identity verification gateway. Bangladesh National Digital Architecture (BNDA) developed this platform in collaboration with the government's ICT Division.
- Through real-time verification APIs, entities subscribed to Porichoy can authenticate customers, merchants, employees, and other stakeholders.
- FinTechs, startups, and financial service providers have used Porichoy for e-KYC in Bangladesh. This process has helped digitized account creation or registration processes to a large extent and has also accelerated the customer acquisition process.

Guidelines for micro-merchants

- BB issued a circular, allowing micro-merchants to open personal retail accounts through which they can receive digital payments.
- It also released a guideline on white label ATM and merchant acquisition (WLAMA) services, which will enable FinTechs to acquire merchants in an agent business model.
- BB also released a guideline to transform physical retail points into digital touchpoints through QR-based payments.
- These guidelines collectively help FinTechs to partner with micro-merchants and build a network of agents through them.

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Regulators have several promising and potentially disruptive policy changes in the pipeline

Interoperability among banks, MFS providers, payment system providers (PSPs)

- Bangladesh Bank (BB) is setting up an Interoperable Digital Transaction Platform (IDTP). IDTP will establish interoperability between banks, MFS providers, and PSPs. It will allow customers to transact across multiple players. It will also help smaller players gain customer confidence as they prefer to keep funds exclusively in the wallets of market-leading players.
- FinTech startups, startup ecosystem enablers, and regulators concur that interoperability will further spur the FinTech industry’s growth while benefiting customers. Customers can choose how they transact and potentially incur lower fees to transfer funds across service providers.

Universal escrow service (UES) to monitor e-commerce platforms and safeguard consumer’s money

- The central bank is currently in talks to form a company for supervising e-commerce platforms. That company will set up an IT infrastructure called UES.
- This entity will act as a payment system operator (PSO). Banks, payment service providers, and e-commerce platforms may potentially be allowed to invest their funds in this company. The central bank itself may also invest in forming the company.

Data-sharing ecosystem and data protection regulations

- Bangladesh Bank aspires to create a data-sharing ecosystem that would benefit all financial services stakeholders. Data sharing can help develop the FinTech industry as FinTechs see opportunities to create additional value through customer data. Data also helps enrich KYC (know your customer) and e-KYC (electronic KYC) processes, overcoming the challenge of insufficient documentation.
- However, customers may hesitate to share their data with unknown FinTechs. Moreover, inappropriate or inefficient usage of customer’s data can lead to business and regulatory risks, further diminishing customers’ trust. Policymakers can address such risks through appropriate data protection regulations, like the GDPR.

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FinTechs and startup ecosystem enablers have voiced their concerns and need for further regulatory support

Awareness building

Many FinTechs still do not know that they can apply to pilot in the Regulatory FinTech Facilitation Office (RFFO). RFFO is the regulatory sandbox of the Bangladesh Bank (BB). BB can work proactively to increase the visibility of the RFFO and other initiatives among FinTechs.

Unique business ID

FinTechs and ecosystem enablers alike have expressed the need for a simplified, digital identification for businesses that would allow them to conduct transactions in formal financial institutions. The current trade license regime is considered ineffective by some as it is not centrally maintained and varies across administrative units.

Tax incentives for online digital payments

FinTechs and enablers working in the e-commerce industry noted that despite an increase in e-commerce transactions, digital payments through this channel could increase significantly. Such a rise in transactions will require a temporary, short-term tax exemption for digital payment for products purchased from online marketplaces to change consumer behavior.

Change in license requirements

Certain FinTechs are concerned about prominent startups, such as Pathao and Chaldal receiving payment service provider (PSP) licenses to launch their wallet. If each major vendor starts getting their PSP license, that may hurt the business of pure PSP players.

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Section 4:
Role of enablers in the startup ecosystem

Enablers in the startup ecosystem[1] supported the FinTechs, catering to their specific needs as per their stage in the startup lifecycle

Early-stage FinTechs

- Enablers supported these FinTechs mainly in building resilience for the business.
- Some enablers provided strategies on ways to endure the pandemic through cost-cutting.
- Others also provided counseling services to the co-founders to help them mentally adapt to the pandemic.

Growth-stage FinTechs

- Enablers provided insights on how these FinTechs can pivot from their existing business models to include essential products and services or find some linkage with such providers.
- They also mentored FinTechs on ways to digitalize their operations and business processes.

Mature FinTechs

- Enablers supported these FinTechs through networking opportunities and connected them to potential partners.
- Enablers also helped prepare FinTechs to raise bridge funding and subsequent rounds of investment to fund their growth.
- Some enablers conducted boot camps and pitch clinics to guide FinTechs on how to approach investors for funding.

During the study, we spoke with these enablers: e-CAB, SBK Tech Ventures, Bangladesh Angels, BetterStories, and GP Accelerator.

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Lot of pivots happened during the pandemic. Lot of initial speculation led to interesting companies pivoting to solutions on the side, adapting to the shifting needs of a post-pandemic world.

What problems do FinTechs find attractive to solve? Then they can find the use-case, instead of having it backward, with a solution in search of a problem.

Our economy still depends largely on cash. We must have a provision to fill these wallets first before one can transact using them.

Startups need to focus on building meaningful partnerships. This is a difficult space to navigate without domain experience.

Startups received recognition from consumers and authorities for to their role in delivering essential products and services.

Funds are available, but access needs to improve. Ease of doing business also needs to be significantly improved, such as opening up the business, attracting international investment, etc.

The reason these initiatives do not succeed as they are not designed from the field. You should first go to the field and you will find the actual scenario there.

"

[1] Enablers in the startup ecosystem here refers to incubators, accelerators, investors, venture capital firms, industry associations, and legal and other ancillary services to startups

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During the pandemic, the investor community has been particularly supportive of FinTechs that adapted and innovated

How investors support their existing portfolio startups:

1 Approaching COVID-19 as a continuing phenomenon rather than a fixed event

The perception of COVID-19 has changed from a three-four months' event to a year-long crisis to a more long-term reality that we must prepare to tackle. As a result, investors are mentoring their cohort of FinTechs to build a mindset of operating under this premise and embrace technology and virtual collaboration efforts.

2 Funding innovative solutions to unaddressed problems

Investors support their startups in developing innovative use-cases to capture market share by making additional investments. Startups find this feasible as they are not taking on many new investments.

3 Sourcing domain expertise

Due to the nature of FinTech, investors realize the need for domain expertise among co-founders or through a strategic partner or senior management at the firm. Investors use their networks to build these connections.

When it comes to new investments, the investors seek to support FinTechs that meet the following criteria:

- **Learned lessons from the pandemic:** Investors particularly value FinTechs that have learned and adapted from the pandemic. These investors include those that faced challenges in their operations and learned from them. It also includes newer FinTechs that set up shop during the pandemic and have learned from the mistakes of others.
- **Resilient mindset and forward thinking**: While the pandemic is an ongoing event, investors value FinTechs that can look beyond it. For them, the pandemic is not just about a few months of COVID-19-specific distress. The pandemic has brought a fundamental shift to consumption patterns, business operations, and public perceptions. According to investors, high-prospect FinTechs have the resilience to endure the pandemic and develop strategies for implementation in the post-pandemic world.

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Section 5:
Way forward beyond the pandemic

FinTechs need to take a fresh look at the partnerships, optimization, and innovative use cases to recover and grow as they transition to a new normal

Strategic partnerships

- FinTechs can partner with an MNO[1] or e-commerce company to gain easy access to their customers to lower acquisition costs.
- FinTechs can also partner with an FMCG[2] company or distributor. Such collaborations will help onboard retailers in their network as merchants for a wallet or payments-based FinTech.
- FinTechs may seek out opportunities to collaborate with payment facilitators such as Visa to grow their business faster.

Cost optimization

- FinTechs have enormous scope to optimize business models, especially around costs. They can accomplish that through leaner SOPs[3].
- Innovations in product design and service delivery can also help to reduce costs. FinTechs can also resort to outsourcing non-core business functions.
- Initiatives such as Visa Fintech Fast Track program makes it quick and easy for FinTechs to apply to work with Visa. This helps FinTechs make the transition to digital payments

Technology optimization

- Technology will play a more empowering role in building sustainable, scalable, and digital solutions for the future, especially for financial inclusivity.
- Hence, FinTechs should continue to allocate resources for building technology-based infrastructure and solutions.
- They should build tech solutions based on human-centered design.
- Visa launched the FinTech initiative for startups in Bangladesh to share knowledge on tools and technology.

Innovative use-cases

- FinTechs can innovate in terms of use-cases to gain a competitive advantage and serve the customer segment better.
- FinTechs can work on new use-cases. These could include providing solutions for cross-border remittance, collateral-free instant credit, goal-based digital savings, microinsurance, buy-now-pay-later (BNPL), assisted touchpoints for micro-merchant payments, and alternate distribution channels for MNOs.

[1] Mobile Network Operator | [2] Fast moving consumer goods | [3] Standard Operating Procedure

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FinTechs also have a lot to learn from things that went wrong since the beginning of the pandemic

Learning from existential crises

- **Balancing growth ambitions with survival needs:** Sometimes, FinTechs may have to introduce certain product lines or revenue streams with higher margins to sustain their operations during times of crisis.
- **Reducing staff salaries is not sustainable:** It can only be a temporary measure. FinTechs need to have other strategies in place for cost-cutting.
- **Extract value from existing investors:** It is easier to get additional funding from existing investors than securing a deal with new investors, especially when they know a FinTech is going through challenging times.

Learning from operational challenges

- **Digital-first approach to building resiliency:** Having a digital-first approach to all aspects of operations makes operations more scalable and enhances resiliency. Such an approach includes digital channels of customer acquisition and accepting digital payments. However, the major stickiness remains the human-centricity of interactions.
- **Investing in tech stack optimization**: As the importance of using technology to attain operational efficiency becomes clearer, FinTechs must invest in an improved tech stack. The technology should have greater scope for scalability without compromising on security or robustness.

Learning from failed attempts

- **Understand the timing and context of the market:** This is crucial, especially for early-stage FinTechs. When the pandemic began, they found that it was better to test early with a work-in-process model than significantly delay the launch in hopes of a perfect product.
- **Rebranding for a fresh start:** Some FinTechs, such as TallyKhata, upay, MicroInspire, and shurjoPay rebranded themselves and launched as a separate entity from their earlier avatars. The rebranding helped them move away from any harmful or unwanted brand associations of the past and start afresh. In some cases, it was due to a fundamental change in business model or change in licensing from PSO to PSP.

Learning from missed opportunities

- **Pivoting in the face of uncertainty:** The pandemic taught us that when the market undergoes a massive shift, especially in consumer preference and behavior, FinTechs must adapt or find a way to pivot accordingly. This need to adapt holds true for all FinTechs, from startups to those at the mature stage. We have seen this agility with some FinTechs as they repurposed their core competency and repackaged it to offer a customized solution for a specific context.
- **Strategic partnerships as a competitive advantage**: It is one of the most important yet overlooked aspects for Early-stage FinTechs. Growth-stage and mature FinTechs made efforts toward this.

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Incubators and accelerators need to support FinTechs to raise funds and support innovation and the evolution of regulation and policy

Support FinTechs in securing investments

- Incubators and accelerators can help FinTechs develop their fundraising strategy and scout for funding sources.
- They can help prevent early-stage FinTechs from making mistakes that hurt their investment chances. For example, early-stage FinTechs sometimes lack an exit strategy, such as IPO[1] or M&A[2].
- Visa Everywhere Initiative provides FinTechs a global platform to demonstrate their solutions and raise investments.

Platform for bridging gaps between stakeholders

- Create a platform for dialog between stakeholders to encourage participative policymaking and innovation-friendly regulations.
- FinTechs can share their needs or pain points with policymakers here.
- Regulators can provide feedback or guidance to the market through this platform.
- Global payment facilitators such as Visa can help connect FinTechs with technology partners and end-to-end solutions.

Platform for focused technical assistance (TA)

- Incubators and accelerators need to support FinTechs with a stable, focused TA program. This program needs to go beyond the usual boot camp-based approach.
- This TA program can support FinTechs in multiple ways: jointly develop solutions with incumbents, understand and innovate for LMI segments, and build a community of practice –based approach to solve problems, etc.

Digital innovation sandbox

- Incubators and accelerators can support an innovation sandbox where FinTechs can test their ideas in a data platform. This is distinct from a regulatory sandbox, which the Bangladesh Bank governs.
- Private organizations can lead this kind of initiative with platform solutions.
- Development organizations, such as ADB and UN Desa can also lead this from a policy angle.
- FinTechs can experiment in the payment space through Visa Developer Sandbox.

[1] Initial Public Offering | [2] Mergers and Acquisitions

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The government and regulators may foster more innovation through structural and policy measures

Regulation

- Bangladesh Bank (BB) may try to learn from more advanced FinTech ecosystems, such as Singapore, Malaysia, and the UK, to proactively bring in regulations for innovations in Bangladesh. For instance, the guidelines on escrow account for e-commerce came after an inspection following public outcry about fraud in payments in e-commerce delivery.
- BB should monitor the activities of early-stage FinTech so it may offer time-bound solutions. It may even establish a department explicitly catering to FinTechs, like in the UAE.

Taxation

- The Government of Bangladesh (GoB) can introduce policies to lower the tax on startups. Bangladesh has the highest corporate tax rates in South Asia.
- GoB can introduce tax exemptions or deductions for startups. While IT-enabled services are eligible for exemptions[2], most FinTechs do not qualify.

Innovation

- Bangladesh Bank (BB) needs to promote its regulatory sandbox (RFFO[1]) among FinTechs and increase its visibility on the BB website.
- BB should also improve awareness on RFFO and extend support to FinTechs regarding the application process for piloting. FinTechs and enablers in the startup ecosystem enablers currently struggle to navigate through this process.
- International payment facilitators such as Visa may provide advocacy support to regulators to make a strong case for digital innovation sandboxes.

Identity

- The government and regulators may create a centralized and digital solution for business identification, such as Unique Business Identification Document (UBID).
- The government may then move from a trade license regime to UBID. Currently, trade licensing is both expensive and complicated.

[1] Regulatory FinTech Facilitation Office | [2] Information and Technology-Enabled Services

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Section 6: Case studies

Case study #1: Apon Wellbeing—a growth stage FinTech

Apon Wellbeing is an omnichannel marketplace of affordable products and services for industrial workers in Bangladesh. Workers get access to health insurance, credit facility, and other wellbeing benefits as they purchase groceries from Apon stores located in factory premises.

Status

Number of staff
50

Active customer base
35,000

MoM revenue
USD 20,000

Impact of COVID-19

Demand-side:

- Apon's cash flow from sales activities decreased during the pandemic as its clients, RMG and large apparel manufacturing companies faced cash flow issues, delaying payments to Apon.
- Also, during the pandemic, the purchasing power of RMG workers dwindled, resulting in lower sales revenue for Apon.

Supply-side:

- During the pandemic, suppliers reduced credit facilities, which limited Apon's operations.

Growth plan:

- Apon's business expansion plan struggled as the FinTech could not expand to new factories due to the pandemic.

Coping strategy

01 Reduced OPEX
Temporarily reduced staff salaries, with the promise to pay back the deducted amounts in the future

02 Added new products
Started selling perishable and nutritional products in the stores

03 Shifted to online operations
Adopted technology to manage their operations

04 Expanded to B2B segment
Apon served as a vendor for factories that provided free meals to their employees.

New products in the pipeline

- Apon is collaborating with a bank to develop a new lending and savings product for industrial workers
- It has plans to implement a savings plan that is both flexible and targeted for workers
- It works with some healthcare companies and insurance companies to introduce on-demand components of insurance and health.

Current runway

- Apon has runway until November, 2021 if they continue their current activities. They expect to become cash flow positive by then if they accomplish their business targets.
- It intends to raise funds to expand its business, which will allow it to extend the present runway.

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Case study #2: Nagad- a mature FinTech

Nagad is a secure digital financial service that facilitates the daily financial transactional needs of its customers like cash-in, cash-out, money transfer, mobile recharge, etc.

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Status

Revenue stream
Most of the revenue comes from P2P transfers and CICO business.

Number of staff
562 FTE
(5000 in distribution and trade channel)

MoM customer acquisition
1.5 million

MoM revenue
USD 430,000
currently

Funding stage
51% - govt. owned
49% - private (23 angel investors)

Registered users
53.4 million

Impact of COVID-19

- Nagad's recurring revenue grew as corporate business transactions and bill payments through digital means increased during the pandemic.
- Nagad's customer base grew from 20 million before the pandemic to 53.4 million at the time of writing, as more customers and corporates routed their banking transactions through digital systems.
- Nagad also introduced digital KYC in Bangladesh for seamless customer onboarding.

Growth strategy

01 Introduced innovative products

Nagad launched a short-code channel through USSD[1]. This allows feature phone users to conduct financial operations through Nagad.

The FinTech also introduced a digital collection solution for corporate customers.

02 Continued assisted service facility

Nagad's field agents remained on the ground to help consumers with their needs during the pandemic. Nagad made their services available 24/7.

03 Explored new service modules

Responding to the situation, Nagad facilitated the payment of COVID-19 test fees, becoming the only channel through which people could pay fees for COVID-19 tests at government facilities. Nagad also acted as a payment facilitator for government to transfer social safety net (SSN) allowances to beneficiaries.

Key areas Nagad is rebuilding while focusing on the post-pandemic reality

- Nagad is pushing to grow its banking network to provide better and inclusive service to customers
- It is in the process of adopting an agile approach to build seamless e-commerce, industrial, merchant payments for a wide range of customers
- It engages in continuous innovation to bring in more products by availing regulatory permission.

[1] Unstructured Supplementary Service Data (USSD), sometimes referred to as "quick codes"

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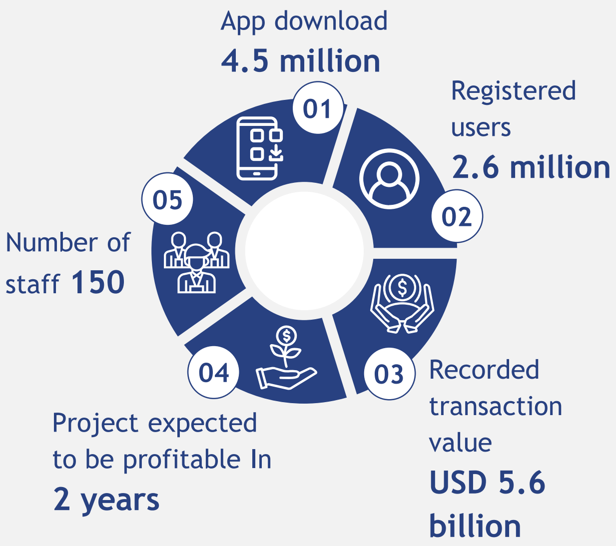
Case study #3: TallyKhata—an early-stage FinTech

Tallykhata is an easy-to-use app to store business records. The app is free and customers can use it offline. Presently, 2.6 million merchants use this app regularly to maintain their bookkeeping records.

Status



Impact of COVID-19

- During the pandemic, micro-merchants and small enterprises began to embrace digital bookkeeping systems, such as TallyKhata.
- The user base grew 25x since June, 2020 despite the pandemic.
- TallyKhata could not launch its digital credit product as per its original schedule. The startup first wanted to conduct an in-depth market study and undertake field visits for the commercial launch.
- Due to the pandemic, a few of TallyKhata’s clients, such as small businesses or shops, had to shut down.
- TallyKhata realized the demand for digital credit and digital payment among small businesses.

Growth strategy

01 Expansion through digital means
The startup uses growth hacking, data analytics, and digital marketing to acquire merchants and promote its products.

02 Launched new product on a commercial scale
TallyKhata partnered with multiple banks to launch digital credit services on a commercial scale. It completed a successful pilot with BRAC Bank and developed a proprietary credit-scoring and assessment model, which is under experiment. It also has plans to launch a digital wallet (PSP) offering soon.

03 Explored a new customer segment
TallyKhata initially focused on micro-merchants. Now they are exploring other small businesses, such as pharmacies, mobile shops, hardware retailers, and wholesalers.

04 Strategized funding strategy
The startup has reached out to potential investors to avail funding for new products it plans to launch—digital credit and digital wallet.

How will upcoming government policies affect TallyKhata?

Interoperability can potentially help TallyKhata to avail data from multiple sources. TallyKhata can use the data for credit scoring by the banks and financial service providers. This data will help them develop digital credit and wallets.

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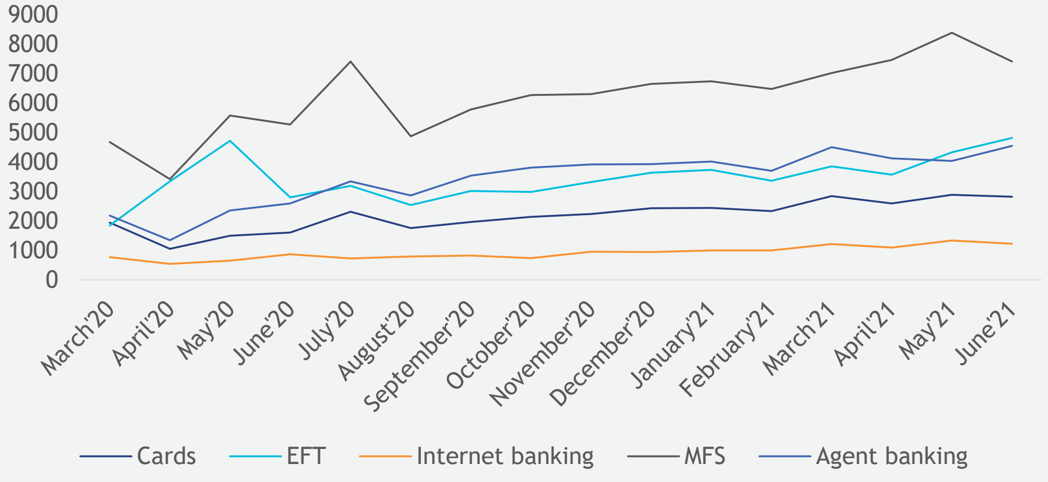
Section 7: Annexes

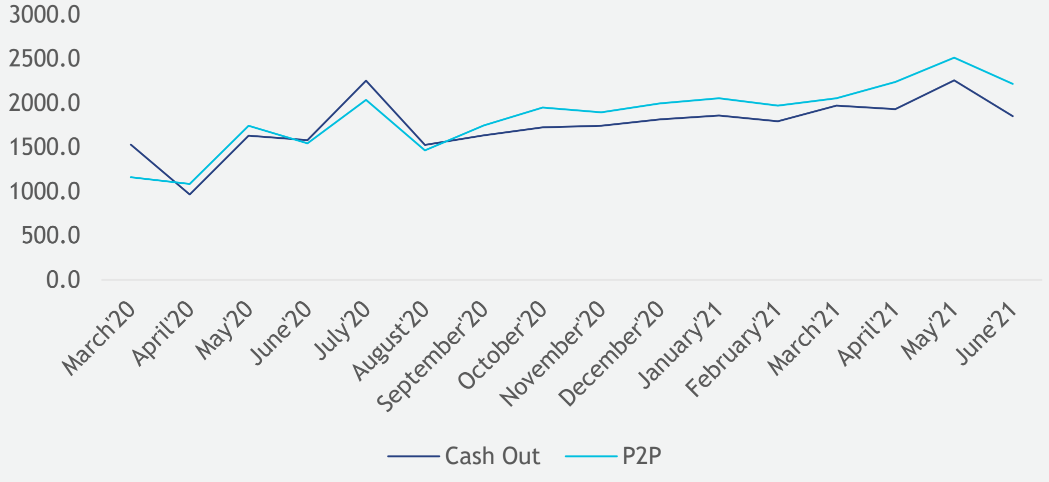
Consumers and businesses relied more heavily than ever on digital payments throughout the pandemic

Transaction value[1] across digital channels (in million USD)



- Overall, we see a clear trend of increase in digital payments.
- The value of monthly transactions for these modes of digital transaction is USD 20.85 billion as of June, 2021. This indicates a 75.51% increase from USD 11.88 billion in February, 2020.
- Salary disbursement through mobile financial services (MFS) peaked briefly during June and dropped later. This happened as RMG factories paid salaries to 4.1 million workers through MFS during those months until September, 2020.
- Merchant payment through MFS continues to rise.

Value of Cash out & P2P transaction[1] via MFS (in million USD)



- During the first phase of the pandemic, person-to-person (P2P) transactions surpassed cash-out transactions. P2P monthly transactions via MFS reached to USD 2.22 billion in value terms as of June, 2021.
- P2P became the most prolific use-case of MFS for the first time. This indicates greater confidence in digital payments. Customers prefer to keep the money within the MFS system.
- More than 300,000 F-commerce informal enterprises in Bangladesh can only receive payments either through cash or personal MFS accounts through P2P transfers.

[1]Bangladesh Bank

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Abbreviations used in the report

Abbreviation	Full forms	Abbreviation	Full forms
BB	Bangladesh Bank	MSME	Micro, small and medium enterprise
BEFTN	Bangladesh Electronic Fund Transfer Network	MNO	Mobile network operator
BNDA	Bangladesh National Digital Architecture	NBFI	Non-banking financial institutions
CEO	Chief Executive Officer	NPL	Non-performing loan
CMSME	Cottage, micro, small & medium enterprise	NPSB	National Payment Switch Bangladesh
DFS	Digital financial services	OPEX	Operating expense
EKYC	Electronic-you-know-customer	P2P	Peer-to-peer
EMI	Equated monthly instalment	PSO	Payment system operator
FI	Financial inclusion	PSP	Payment service provider
FMCG	Fast-moving consumer goods	RFFO	Regulatory FinTech Facilitation Office
GoB	Government of Bangladesh	RMG	Ready-made garments
IDTP	Interoperable Digital Transaction Platform	SME	Small and medium enterprises
KYC	Know-your-customer	VAT	Value-added tax
LMI	Low and moderate income	VC	Venture capital
MFI	Microfinance institutions	USSD	Unstructured Supplementary Service Data
MFS	Mobile financial service		

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Sampling frame and primary data sources: FinTech startups

During this study, we conducted key informant interviews (KIIs) of 20 respondents. Of them, 12 were FinTech startups, and eight were startup ecosystem experts. The first category included mobile financial service (MFS) providers, payment system operators (PSOs), payment service providers (PSPs), P2P lenders, credit rating facilitators, and insurtechs. The second category included accelerators, incubators, investors, regulators, and thought leaders in the FinTech domain

Given below is the list of the 12 FinTech startups interviewed:

Organization	Name	Designation/affiliation
Apon Wellbeing	Saif Rashid	Chief Executive Officer
bhalo Social Enterprises	Subrata Kumar	Chief Executive Officer
CashBaba	Mohammed Shahed Ullah	Chief Marketing Officer and Director
Dana FinTech	Gazi Yar Mohammad	Co-founder and CEO
Microinspire	Rahat Khan	Chief Commercial Officer
Nagad	Shihab Chowdhury	Chief Sales Officer
PayWell	Mohammad Kudratullah	Co-founder and Chief Marketing Officer
Shadhin	Md. Shadman Yunus	Co-founder
shurjoPay	Victor Jerry Rozario	Marketing Manager
SSL Commerz	Tayab Hossain	Head of e-commerce Services
TallyKhata	Mohammad Zahirul Islam	Vice President, Head of Strategy and Planning
upay	Zia Rahman	Chief Strategy officer

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Sampling frame and primary data sources: FinTech ecosystem experts

During this study, we conducted key informant interviews (KIIs) of 20 respondents. Of them, 12 were FinTech startups, and eight were startup ecosystem experts. The first category included mobile financial service (MFS) providers, payment system operators (PSO), payment service providers (PSP), P2P lenders, credit rating facilitators, and insurtechs. The second category included accelerators, incubators, investors, regulators, and thought leaders in the domain of FinTech.

The table below lists the eight ecosystem experts interviewed:

Organization	Name	Designation/affiliation
Bangladesh Bank	Shah Zia-Ul Haque	Joint Director, Payment Systems Department
a2i	Rezwanul Haque Jami	Head of eCommerce
SBK Tech Venture	Sonia Bashir Kabir	Founder
Bangladesh Angels	Jawad Yusuf	Advisory Lead
e-Commerce Association of Bangladesh	Ashish Chakraborty	Director of Government Affairs
Bank Asia	Jakirul Islam	Senior Vice President
BetterStories	Minhaz Anwar	Founder and Chief Storyteller
Grameenphone Accelerator	Solaiman Alam	Chief Digital and Strategy Officer

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We also appreciate all of the key informants that we interviewed for sparing their valuable time and sharing profound insights on their journeys during COVID-19 and their thoughts about the FinTech startup ecosystem of Bangladesh.

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Developed **275+ FI products** and channels now used by **55 million+ people**	**Trained 9,900+** leading FI specialists globally

Some of our partners and clients

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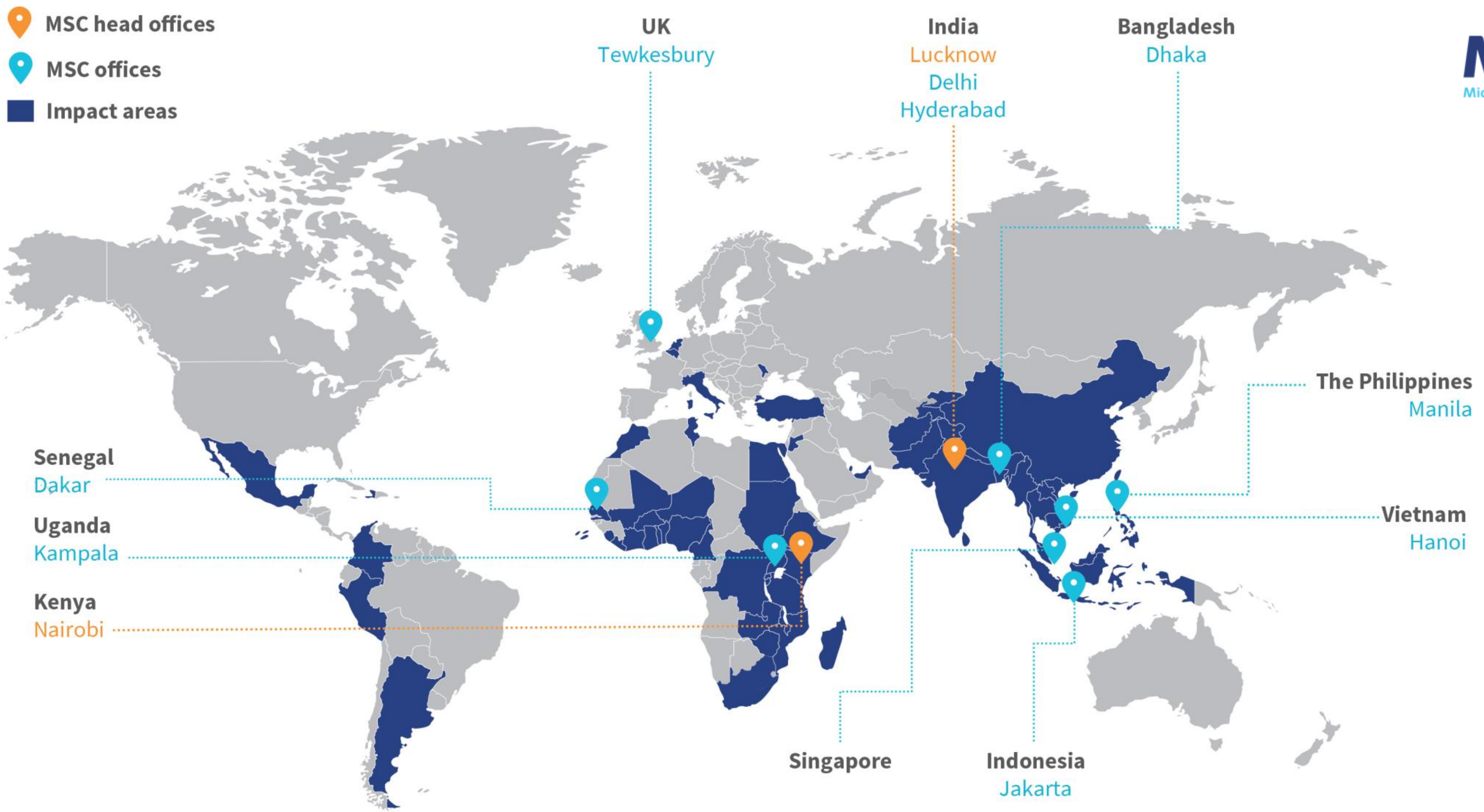

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