

Interoperability arrives

Lower switching costs could complicate things

- **Funds to flow freely between MFS operators and banks:** Recently released PSD Circular No. 7 from the central bank introduces terms for interoperability between MFS operators and banks. The service will be introduced on 27 October 2020 between the first batch of operators, while others must introduce the service by 31 March 2021. Interoperability will be implemented through the central bank's National Payments Switch Board (NPSB), which is a real-time gross settlement payment network primarily being used to settle card payments at the moment. The key issue for bKash is that this reduces switching costs for customers, which effectively means customers can choose platforms offering the highest discounts at any given time. While this is not enough to move the needle for the current set of competitors, this opens up opportunities for potential new entrants into the business. On the positive side, lower transactions costs could boost overall transaction volumes, which could have a trickle-down effect on bKash as well.
- **Pricing solves key question marks:** There will be no changes to charges levied on the customer end. In case of fund transfers between two MFS operators, the recipient MFS operator must pay the sender MFS operator 80bps. This is roughly equivalent to the commission MFS operators pay to agents/distributors on cash-in. In case of transfers between banks and MFS providers, the recipient operator will have to pay the sending operator 40bps. As shown in Table 1 below, this can have varying financial consequences depending on the mix of cash inflow channel and where the money ends up. The key highlight for us is that bKash would only lose money if the customer decides to cash-out via banks, which is generally rare because (i) use-cases are higher in MFS wallets, and (ii) bulk of the cash-out customers don't have bank accounts.
- **bKash will fare fine, for now:** We think it only makes sense for customers to transfer money to a another operator to make use of (i) a promotional campaign, or (ii) a vastly superior interface. Given bKash still has significantly deeper pockets and a smoother interface, the risk appears muted for now. However, with network effects significantly weaker in this business, it is becoming theoretically easier for any potential new entrants to break into this business.

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Table 1: Net fee income on transfers to other MFS operators/banks

Cash inflow channel	Cash outflow channel	Net fee income
MFS operator/Agent (pay 80bps)	MFS operator (earn 80bps)	0
Bank (pay 40bps)	MFS operator (earn 80bps)	40bps
Bank (pay 40bps)	Bank (earn 40bps)	0
MFS operator/Agent (pay 80bps)	Bank (earn 40bps)	-40bps

Source: Central Bank Circular, EDGE Calculation

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