



Digital Financial Services (DFS) – Innovation Challenge Facility

General Guidelines

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State Bank of Pakistan

Agricultural Credit & Microfinance Department



Glossary

Term	Description
DFS	Digital Financial Services
SBP	State Bank of Pakistan
NFIS	National Financial Inclusion Strategy, Government of Pakistan
PTA	Pakistan Telecommunication Authority
TPSP	Third Party Service Provider
MNO	Mobile Network Operator
BB Player	Branchless Banking Operator
OTC	Over the Counter
P2P	Person to Person
ANA Report	Agent Network Accelerator Research Report
DTA	Digital Transacting Account
DFID/UK-AID	Department For International Development – United Kingdom
PMS	AMA Scheme’s Project Management Secretariat
G2P	Government to Person Payments
P2G	Person to Government Payments
ATM	Automated Teller Machines
RTGS	Real Time Gross Settlement
B2B	Business to Business Transactions
B2C	Business to Consumer Transactions
A2FS	Access to Finance Survey
GOP	Government of Pakistan
FinTech	Financial Technology
PSP	Payment Service Providers
PSO	Payment Service Operators
DTA	Digital Transaction Accounts

Background

The growth of digital mobile solutions is allowing the world to become more connected and enabling masses to access and use services and opportunities conveniently, quickly and effectively. These developments are particularly on the rise in Pakistan. The country is home to over 145 million NADRA verified cell phone connections with more than 48 million having 3G/4G/LTE connectivity, while cellular density remarkably stands at 71.4%, growing from 54.6% in 2008¹. In order to leverage the cellular networks' outreach for digital financial services, SBP issued a Branchless Banking (BB) regulatory framework in 2008, to facilitate synergies between telecom operators and banks. The BB industry now comprises of 11 licensed providers offering a wide array of alternate delivery channels to increase access and use of financial services in far flung areas. As of September 2017, more than 33 million BB accounts have been opened while over 420,000 BB Agents are serving as access points for financial services. This has allowed customers without a bank account in far flung areas to receive and send remittances in minutes, pay bills using formal channels, and receive welfare payments on behalf of government and non-government agencies.

With high cell-phone penetration, high internet usage, enabling regulations, multiple mobile money operators and the majority population being under the age of 45 years²; Pakistan has all the key ingredients to create a revolution in digital financial services and boost financial inclusion. Despite that fact the current technologies for distributing financial services falls short, and do not encourage all individuals to have easy and convenient access to even basic accounts. According to Access to Finance Survey (A2FS)³ 2015 access to financial services still remains low. Only 23% of the adult population has access to formal financial services, while merely 16% adults have a bank account. Furthermore, only 11% of adult women have a bank account, compared to 21% of men having a bank account. Within the DFS sphere, out of the 33 million BB counts, almost 53% are in-active, while the average deposit balance in total accounts is around Rs 340.

On the supply side, limited interoperability between the BB players, lack of open APIs at financial institutions, high cost of doing transactions and reluctance by banks to collaborate with startups and financial technology companies (FinTechs) combined have greatly held back the takeoff of DFS ecosystem in the country. Customer awareness also remains one of the biggest challenges for successful uptake of DFS ecosystem in the country. Furthermore, though smart phone penetration is rising, it remains low in many parts of Pakistan and low-income customers predominantly still use basic phones. This challenge necessitates FinTechs to build more solutions that rely on USSD technologies. On the demand side, since a large portion of our BB accounts remain inactive, it demonstrates that the market does not have enough

¹ <http://www.pta.gov.pk/en/telecom-indicators>, 2017

² <http://worldpopulationreview.com/countries/pakistan-population/>

³ <http://www.a2f2015.com/highlights>

demand based products existing in the DFS eco system that can encourage customer activity. Hence, innovative, need based products and solutions should be created that use the DFS technology effectively to cater to people’s financial needs and allows them to avail opportunities effectively.

DFS Potential in Pakistan

It is estimated that the market potential of Digital Finance services in Pakistan will cross US\$ 36 Billion by 2025, providing a 7% boost to the GDP, creating 4 million new jobs and resulting in US\$ 263 Billion new deposits.⁴ This potential can only be achieved through a robust and efficient DFS ecosystem. Though Pakistan possesses a nascent DFS ecosystem, in order to tap in to its potential, innovative solutions by Fin Techs hold the opportunity to leverage the existing enabling regulations and market developments and help Pakistan leapfrog in to the next generation of digital financial services.

It is clear that a vision of a technologically advanced, financially inclusive ecosystem cannot be achieved without the use of technologically innovative financial systems and solutions that give access of financial services to each and every citizen in the country without any limitations. The end goal is to use DFS to make markets so inclusive, that even small entrepreneurs in Pakistan, such as women making fruit relishes in rural Sindh, can sell it online across Pakistan and collect revenues digitally in their mobile wallets.

Introduction of Asaan Mobile Account (AMA) Scheme

With the advent of BB regulations by SBP and subsequent introduction of BB agents’ network in the country, a paradigm shift of digitized formal financial activities was envisioned for the consumers. However, usage has remained restricted to Over the Counter (OTC) transactions, bill payments and mobile top-ups while formal accounts are either not opened, or remain dormant. It hasn’t been until recently that BB players have focused on improving up-take of mobile wallets; though, lack of customer awareness about the usage and benefits of a wallet over OTC remains a challenge. Against these challenges, SBP has identified Digital Transaction Accounts (DTA) as one of the key priority action areas under the National Financial Inclusion Strategy (NFIS) launched in 2015.

Under this, SBP has planned to launch multiple schemes to improve access to DTA’s and make them easier, affordable, interoperable and accessible for all consumers. However, their success will rely on how well banks, telco’s, and fin techs leverage the technology to develop practical use cases for customers. In this regard, **Asaan Mobile Account** scheme is being launched as a DTA scheme under NFIS to create the necessary pillars for the DFS Ecosystem by enabling account opening and usage of financial services through an interoperable platform for the low income demographic. AMA scheme aims to spur faster adoption and greater levels of usage of DTAs and DFS, by both individual consumers and small merchants who can accept payments through DTAs. The Scheme will provide a unified interoperable platform

⁴ Mc Kinsey Global Report, “Digital Finance for All: Powering Inclusive Growth in Emerging Economies” Sep 16

offering account acquisition; swift & safe flow of domestic remittances and other payment services, interoperable digital payments settlements among participating institutions; client centric products & services development; and a robust complaint redressal mechanism.

The initiative sets to level the playing field for BB providers, demonstrate interoperability and achieve industry collaboration for a payment scheme designed uniquely for the BB industry. By bringing the industry together, the scheme intends to simplify the industry's offerings and, standardize the products & services being offered wherever possible, in order to present a more cohesive, attractive, and universally understandable set of products for all users, including merchants and agents nationwide. It is expected that through the scheme and its available functionality, the perceived 'cost' of using digital transactions can be decreased, while the perceived 'cost' of cash might increase. This behavioural shift is integral to drive adoption of DFS payments and products to meet the goals stated in the NFIS document. Since the AMA scheme aims to tackle the existing challenges of inactivity, low deposits, and high OTC transactions in the BB digital ecosystem, innovative solutions can be created with the support of the industry to populate the infrastructure with demand based innovative formal financial solutions for the low income segment.

DFS Innovation Challenge Facility (ICF) – General Guidelines

The DFS ecosystem thrives on two fundamental support structures; Infrastructure readiness, and an enabling environment. The AMA Scheme will provide the necessary infrastructure for a DFS Ecosystem in the country, but the infrastructure should be complemented by unique and innovative demand based solutions that can effectively cater to people's acute financial needs and enable them to seize opportunities that have traditionally been out of their reach. Therefore to facilitate the creation of an enabling environment in the DFS eco system, SBP is launching an Innovation Challenge Facility (ICF) to find and support innovative fin tech solutions to promote DFS in the country.

The goal of ICF is to allow market players to develop innovative solutions for Pakistani consumers and enterprises for increasing access and usage of financial services within the existing infrastructure of AMA. This will foster the creation of a client centric DFS system which encourages customers to not only open DTA's but use other financial instruments to drive adoption of DFS. Going forward, these solutions can play a major role to digitize payments, foster inclusive economic growth, improve value chains in industries, increase socio-economic wellbeing of masses and bring transparency in the economy.

A- Objectives

The facility aims to support financial service providers, financial technology providers and institutions with a digital solution to develop new or expand existing financial products, services and delivery platforms that will increase financial access for people living at the bottom of the pyramid.

The purpose of this challenge facility is to help;

- Launch of innovative ideas having leapfrog growth potential to increase financial inclusion in the underserved areas, for population segments normally excluded from financial sector, i.e. farmers, factory workers, women and other blue-collar workforce.
- Develop easy to use, cost effective and innovative digital payment solutions for different stakeholders of society such as general masses, or specific demographics such as women, youth, micro-entrepreneurs, housewives; as well as businesses, and government.
- Develop and integrate key offerings with other players in the DFS Ecosystem, hence introducing service/product level interoperability.
- Novel solutions to create easy digital access to formal financial services including savings products, lending services, pensions, insurance tools, remittances, etc
- Spur innovation and innovative practices that increase access to financial services by the unbanked or the financially excluded. The fund will provide support for pilots and for up-scaling financial services vis-à-vis seed capital and a platform for knowledge sharing.
- Leverage ICF funds to attract private investment. Additional capital will help create a bridge between pilot and roll-out of an innovation.

B- Thematic Areas

The key objective of Innovation Challenge Facility is to provide an opportunity to financial institutions (FIs) as well as non-financial players to experiment with innovative digital financial products or services in the production environment but within a well-defined space and duration.

The scope of the facility will focus, but not be limited to the following areas.

- Transactional Banking
- Payments Solutions
- Government to Person (G2P) and Person to Government (P2G) Payments
- Development and integration with Third Party Service Providers (TPSP)
- E-Commerce
- Interoperability
- Digital Lending
- Supply chain Digitization
- Digitization of Microfinance Institutions' Payments
- Digitization of International Remittance
- RegTech solutions
- Digitizing the Rotating Savings and Credit Associations (ROSCA)
- Crowd Funding
- Insurance marketplace / platforms
- Loyalty and Discounts, closed loop wallets
- Agri lending platforms/ marketplaces
- SME lending platforms/ marketplaces
- Wealth Management Algorithm
- Escrow as a service

However, the first batch of proposals will focus on adoption and up-scaling of Asaan Mobile Account (AMA) Scheme.

C- Operational Mechanism

- **Facility Management**

Innovation Challenge Facility (ICF) will be housed at NFIS Secretariat, SBP and a cross functional team having technical level representation from AC&MFD, PSD & BPRD would manage the initial scrutiny of the proposals. After having initial evaluation, the shortlisted proposal will be presented to Evaluation Committee which draws representation from SBP, PTA, DFID and private sector, The Committee is assisted

by the NFIS Secretariat and the technical team in fulfilling its duties such as screening, approval, and oversight of the challenge grants.

- **Submission/ approval of proposals**

Applicants may submit their complete proposals to NFIS secretariat. Upon a thorough desk review and detailed consultation with applicants, NFIS Secretariat will present proposals to the Evaluation Committee. The Committee after analyzing the proposal, its deliverables, impact, and operational readiness will award approval along with financial assistance to pilot test the innovation.

- **Duration and Size**

Grant sizes will be determined according to the financing requirements of the proposal in question; however, the duration of the projects should be ideally not more than ten months. Applicants will be required to contribute at least 10% of the total project cost as matching funds.

- **Provision of Incubatory Environment**

Depending upon the nature of the proposal, appropriate regulatory support by relaxing specific legal and regulatory requirements as prescribed by SBP will be provided to grantee institution during the experimentation phase.

- **Monitoring**

NFIS Secretariat will monitor the progress through quarterly progress reports submitted by grantees. The quarterly reviews will present three key aspects of projects, including progress on work plan, outcomes and grant utilization. The project's progress will be seen over six/ ten months and in case of signs of failure; the project funding may be ceased.

- **Knowledge exchange**

The grantees are expected to share project experiences in the form of regular reporting, contribution to newsletters, presentations and conferences.

D- Eligibility Criteria

The Proposal should cover following elements to make it eligible for consideration:

- The product, service or solution must be designed to be implemented in Pakistan.
- The product, service or solution must be backed by some demand side evidence, demonstrating its viability against an existing challenge faced by the target market.
- The product, service or solution could be financial in nature, but a support service to a financial service provider will also be permitted.
- The product, service or solution must be mobile network operator agnostic.

- Partnerships and joint ventures are permitted and encouraged where relevant, however all business entities need to be fully licensed and registered with appropriate regulators (i.e. SBP, SECP, PTA etc.)
- The lead applicant shall be registered with the appropriate regulator (i.e. SBP, SECP, PTA etc.)
- Applicants should provide supporting documentation for due diligence of the applicant and/or partners and/or individuals involved, demonstrating expertise and experience which may include at least one year audited financial statements, sound working experience, strong team composition, and subsidiary/affiliate of well reputed firm with strong financial standing.
- The ICF facility will be available to Banks, Microfinance Institutions, Government entities & Government departments/subsidiaries/boards, Insurance Companies, Non-banking financial service providers, PSPs, PSOs, BB Players, Fintechs, Telcos, software houses, and startups. However, organizations other than banks must have a partnership arrangement with Banks to become eligible for the grant.

E- Submission of Proposals

ICF will be an on-going facility till June 2019. Applicants may submit their concepts/ proposals at any time. However, these concept & proposals will be reviewed in a batch of at least 3-4 proposals.

Application Deadline	Ongoing process till June 2019
Deliverable	Complete proposal must be sent electronically at nfis-icf@sbp.org.pk Hard copies must be sent to: Director, Agricultural Credit and Microfinance Department State Bank of Pakistan, I.I. Chundrigar Road, Karachi Karachi-74000 Tel: +92 21 32455584 Fax: +92 21 99221558
Eligible institutions	Banks, Microfinance Institutions, Government entities & Government departments/subsidiaries/boards, Insurance Companies, Non-banking financial service providers, PSPs, PSOs, BB Players, Fintechs, Telcos, software houses, and startups.

F- Proposal Evaluation Criteria

Broadly, the ICF Advisory Committee will adopt the following criteria set for the selection:

- **Feasibility (40%)**

The applicant must clearly demonstrate an ability to execute the concept through:

- A team with relevant expertise and track record to deliver
- A product, service or solution that has a robust, and commercially viable business case
- A clear understanding of risks and plan to mitigate those risks.
- Extent of market research on the project.
- Level of financial resources that the applicant organization is willing to commit.

- **Relevance (30%)**

The applicant must clearly demonstrate demand for the product, service or solution;

- A clear and demonstrated value proposition to the target client group.
- Evidence of accessibility, affordability functionality from a critical mass of user testing.
- Demonstrated links to key NFIS objectives.
- Uniqueness of the innovation.
- Quality of team that will be developing, testing, launching and mass scaling the innovation.

- **Impact (30%)**

The applicant must clearly demonstrate how the product; service or solution has transformational potential through:

- Its original and disruptive approach to a persistent client challenge or other constraint and opportunities in the financial sector
- Its potential to reach and maintain a large number of clients and/or transaction volumes

G- Enquires relating to Submission of Application

All enquiries relating to the application process may be made at nfis-icf@sbp.org.pk or at Tel: +92 21 32455584 and Fax: +92 21 99221558.