

Pakistan Branchless Banking Conference 2010

Summary and Recommendations

The formal financial services industry in Pakistan caters to only about 12% of the population, while the rest of the population do not have access or turn towards informal institutions i.e. family and friends or remain unbanked. The use of brick & mortar branches to reach those unbanked population is impossible given the high costs of setting up and running branches and thus a need to introduce alternative delivery channels has been felt to enhance financial access for those who are unbanked.

The alternate delivery channels will rely on technology solutions and agent networks to lower the transaction costs to optimize financial access. In particular, mobile phones are considered to be the most viable tool to serve the purpose as their users are 4 times the number of account holders of the formal banking system in Pakistan.

In pursuit of reviewing the developments of branchless banking in Pakistan, the industry's preparedness, and to develop some thoughts on the Financial Inclusion Program's (FIP) technology component, State Bank, in collaboration with DFID and CGAP, organised a conference on branchless banking on April 17, 2010. The conference summary and recommendations are as follows:

Opening Session

The Governor SBP Mr. Salim Raza in his keynote address reaffirmed SBP's stance of active engagement with financial and non financial players to adapt alternate delivery channels to promote financial access in the country. He was of the view that telecommunication companies can be of great help to enhance financial services to their millions of subscribers. Mr. Raza spoke very optimistically of all three branchless banking models operating in Pakistan and a fourth emerging Teleco model. He urged the private sector to take benefit of current enabling environment and accelerate the uptake of technology-led models.

Mr. Haroon Sharif, Senior Regional Adviser (South Asia) shared UK Aid's vision for financial inclusion in Pakistan and briefed on the funds established with the £50m UK FIP grant. He also highlighted the CGAP's technology program and its four areas of focus. He gave an overview of the existing financial infrastructure and suggested that market should promote innovations and proceed with flexibility; however, it should develop risk mitigating tools and avail the facilitation of state agencies to reduce cost and promote competition. He mentioned that DFID grants has facilitated a policy/regulatory space which provide opportunities to private sector to take benefit and play its role in broadening access to financial services. He also informed that CGAP with support from DFID and the Bill and Melinda Gates Foundation has chosen Pakistan among five "focus" countries where they would support the efforts for inclusive financial sector.

Dr. Muhammad Yaseen, Chairman-PTA spoke on mobile regulators perspective in relation to branchless banking services and expressed his concerns firstly over a balance between prudential controls and innovation in the telecommunication sector, secondly over the trust in payment systems and the risks attached to it, and lastly over the issue of accountability with cross sector regulatory requirements. He reassured that his team will work with SBP to develop a conducive regulatory environment which will allow Branchless Banking to flourish in Pakistan. He mentioned that a third party switch will be important in promoting branchless Banking in Pakistan.

Mr. Ali Arshad Hakeem, Chairman-NADRA shared NADRA's experience in distributing cash to Internally Displaced Persons (IDP's). He presented the whole procedure NADRA followed in distributing cash from registration of an IDP till disbursement. Furthermore, he talked about the importance of NADRA's upcoming initiative of issuing smartcards and their usefulness for banks, MNOs, and the Benazir Income Support Program. He was of the view that such cards offer greater security and identification validation. These cards will be equally valid for transactions at agents' counters as agents will be able to send clients' photograph to NADRA through mobile phone for verification/validation.

Key Themes:

- Private sector has to take the lead and necessary steps for rapid uptake of branchless banking.
- The providers should set realistic expectations of their time horizons and potential returns.
- Policy and regulatory consistency should allow the market to develop and promote innovation.
- Proceed with flexibility while understanding risks and develop risk management tools to build public confidence in alternate delivery channels.
- State agencies must facilitate branchless banking by reducing the cost of doing business and promoting fair competition.
- There has to be a defined set of procedures to comply with minimum prudential regulations, such as capital, liquidity and submission of financial data on a regular basis to the supervisory authorities, as in the event of financial distress, depositors may be at risk.
- Issues such as licensing, pricing, alliances with different financial institutions and compliance with prudential regulations need to be considered carefully.
- There must be clarity over the accountability for the integrity of transactions, security of information transmitted, adherence to a consistent set of regulations and proper maintenance of the system.
- Branchless banking should target more than just payment services to tap into vast opportunities for delivery of all sorts of financial services. This will allow cross subsidization and maximize returns.

Session II

Mr. Kabir Kumar, Senior expert, CGAP discussed emerging models in branchless banking i.e Money service provider model, Mobile bank model and Agent based acquirer model.

Money service provider was discussed in terms of its nature, legal structure, costs, value proposition and business logic. He elaborated the functionality of the model and gave estimates of upfront investments required to initiate this model. To explain the model, he gave the example of M-PESA operated by Safaricom of Kenya.

In the case of a mobile bank, a comprehensive operational view was shown to explain how the model would work. The operation was elaborated with an example of the Joint Venture model of Telenor and Tameer bank. A virtual profit & loss statement was shown to explain the costs and revenues involved.

For agent based acquirer model, a comprehensive operational view was shown to explain how the model would work. The operation was elaborated with an example of Eco's distribution Network which works with partners such as Airtel & State Bank of India.

These models were explained in light of business cases for MNO's, Banks and IT providers. Furthermore, the role of market structure in telecom market was also discussed.

Key Themes:

- Test different branchless banking models and see which one is most suitable for Pakistan's business environment.
- Pakistani MNOs have already grown-up. However, their ARPUs are declining; hence, it is time for them to leverage their existing network and resources.

Session III

Mr. Nadeem Hussain, President – Tameer Microfinance Bank Limited shared his vision of becoming the largest bank in terms of number of clients to be served. He talked on the operations of easy paisa, its core proposition, its role in transformational banking, its value for agents, customers, Telenor and Tameer microfinance bank, and the product range easy paisa could offer including mobile accounts, money transfers and utility bills. He also informed the participants about the market acceptance of M-commerce and easy paisa in Pakistan. He explained the challenges for financial inclusion and concluded on a note that there is a large market for people who are unbanked and that mobiles can be used as branchless banks.

Mr. Abrar Mir, EVP, Head business & Re-engineering – UBL presented on the industry readiness for branchless banking and started with a brief history of UBL's premier role in developing a product called the Orion "Mobile Wallet", and mentioned about the process that UBL followed for delivering branchless banking. He explained what services will be delivered through branchless banking particularly describing the nature of different underlying channels. He also discussed the security attached to branchless banking models and described the challenges faced by agents networks. He mentioned that UBL has decided to develop its own network of agents under the "Omni" brand instead of selecting a super-agent. Here, the biggest challenge will be to manage liquidity at the agents. A few examples were also given from the government to person's payment applications such as, World Food Program (WFP)-Pilot and the Benazir Income Support Programme.

Mr. Qasif Shahid, Head Remote Banking and Business Development – MCB Bank Ltd spoke about MCB's vision of future ease in payments through mobile banking. He discussed MCB's intent to think big, start small and then scale up fast. The current focus of the bank's mobile banking strategy is to transform the behavior of existing clients. He also emphasized cross-industry collaboration.

Key Themes:

- Allow building and training the Agent network.
- Develop formal forums to allow stakeholder participation and input.
- Follow trusted service branding and marketing.
- Start up small but scale up fast.
- The limits defined for level-I account may need to be reviewed.

- Consumer protection needs to be integrated in media campaigns.

Session IV

Mrs. Aniqā Afzal Sandhu from Mobilink Pakistan spoke on the Branchless Banking Agents Networks and talked in detail about the role of agent networks, the challenges in setting up a branchless banking agent network, the critical success factors involved therein and different distribution networks i.e. Telco distribution network and Mobilink's distribution networks. She also pointed out that care should be given while selecting business model to follow, be it bank led or Telco led model. She presented her assessment of these two models under five traits and concluded that Telco-led model was the better of the two. She moreover highlighted the possible setups under these two models referring to a case study based on Agents networks in Kenya. She said that every player in the value chain needs to be satisfied with its share in revenue-cost. She concluded her speech defining Telco-led model to be the most suitable for Pakistan's market.

Mr. Khalid Awan – Chairman of TCS Ltd said that the customer perspective is the most important factor. He also talked on the importance of branchless banking agents networks in Pakistan and pointed out a paradigm shift from the high value financial market to a high numbered transaction market. He defined several success factors for branchless banking dependant on the agents involved such as credibility, proximity, security, simplicity and liquidity.

Key Themes:

- Telco Agent Networks are well suited to become Branchless Banking Agents and should be established.
- Factors impacting the success of a Branchless Banking Agent Network need to be addressed before contemplating roll-out.
- Revenue and Cost Model for the MNO and their agents need to be given more role/stake in the Branchless Banking value chain.
- As the main interface with the customer, agents have to ensure compliance not only with KYC as required by the regulator, but with all fraud prevention processes.
- Customer experience is critical to the success of this venture and it is imperative that customers have immediate access to their cash. Agents will have to ensure minimum liquidity levels.

Session V

Mr. Chris Bold from CGAP gave a presentation on Opportunities in G2P Payments and shared some international experiences. He elaborated the types of G2P payments and discussed different G2P programs with case studies of Colombia, Brazil, South Africa and India. He was of the view that G2P payments if electronically delivered can be cheaper with reduced leakage and with enhanced social impact of the transfer. Lastly, he spoke on the factors in organizing a successful tender.

Key Themes:

- Provide good quality services so that the poor people use them.
- More work is recommended to prove the business case and take the word to government.

Closing Remarks

Mr. Steve Rasmussen from CGAP appreciated the efforts put in by SBP in gathering international and local expertise under one roof. He stressed that upscaling would require going beyond payment and covering microfinance. He inferred that branchless banking in Pakistan will serve as a great tool to cater the untapped market. He mentioned that there are several different paths that can be taken towards interoperability and stressed that the timing of any intervention to mandate interoperability needs to be carefully considered. He expressed hope that the country would show up as a market with high potential and growth. He recommended that SBP should develop a formal consultative group for branchless banking on the pattern of microfinance consultative group. Such group can facilitate discussion on issues raised by the participants such as limits of level-I accounts and inter-operability etc.