

# Pakistan: a laboratory of G2P approaches

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Branchless Banking Pakistan & G2P Payments

State Bank of Pakistan

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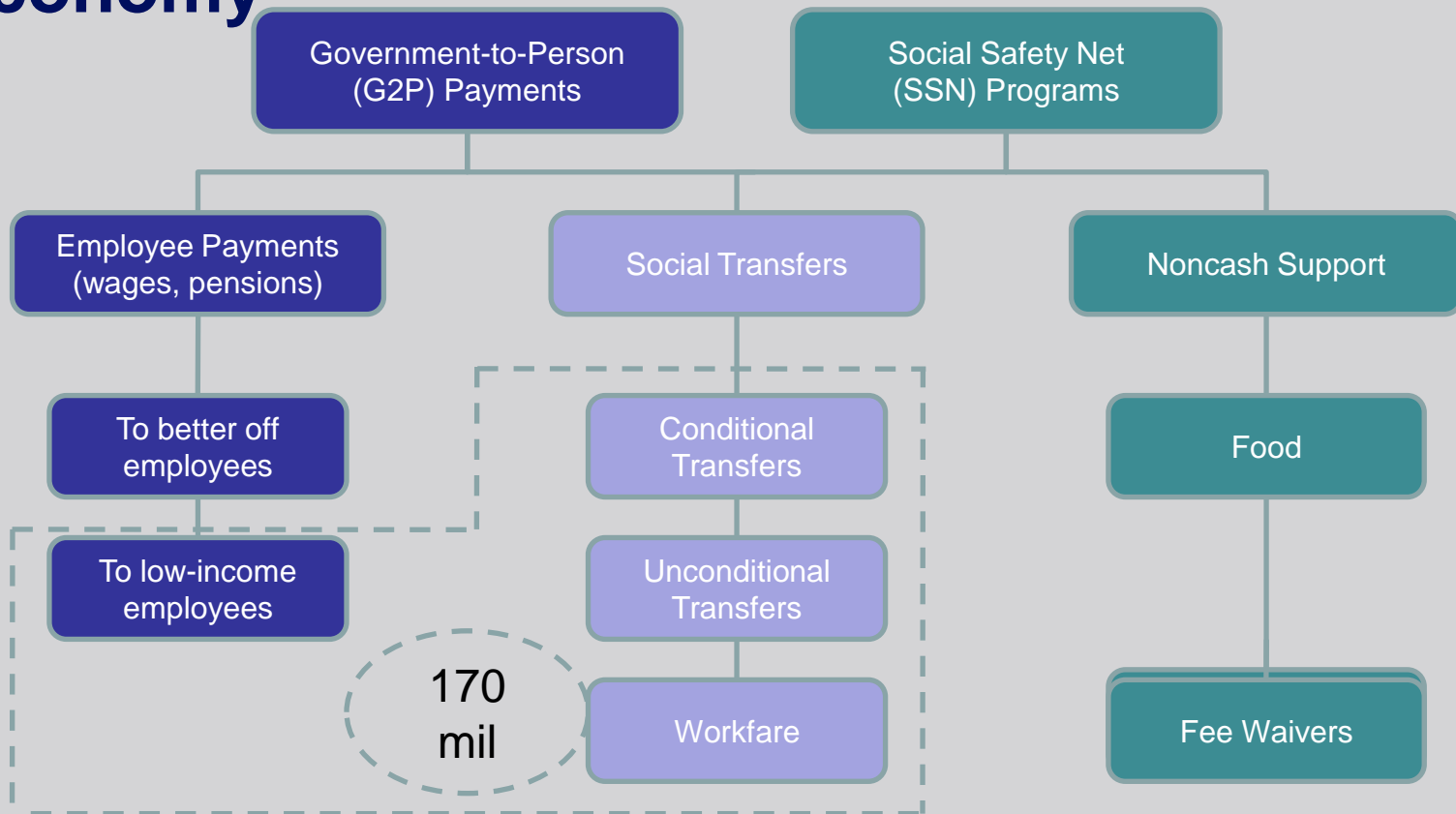
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# Outline

- ❖ Marrying G2P & financial inclusion
- ❖ Making the match
- ❖ The courting so far in Pakistan
- ❖ Way forward

# Government to person payments (G2P) are an important class of payment flows in any economy



They matter not only because of their scale  
but also their reach: geographically & in income

# Going electronic can result in potentially large cost savings

Year	Country	Author	Saving % GDP
2003	Many 	Global Insight	1%
2007	Brazil 	Banco Central	0.7%
2010	India 	McKinsey	1.5%

Source of savings:

- 80% in welfare programs
- Through reduced leakage

In Pakistan, a saving of 1% GDP p.a. amounts to more than 2 years of BISP expenditures

# Financial inclusion

*“A state in which all people who can use them have access to a full suite of quality financial services, provided at affordable prices, in a convenient manner, and with dignity for the clients.”*

Source: Center for Financial Inclusion at Accion

## Benefits:

### ❖ Developmental:

- Provides a pathway out of or risk absorbers to prevent slide into poverty

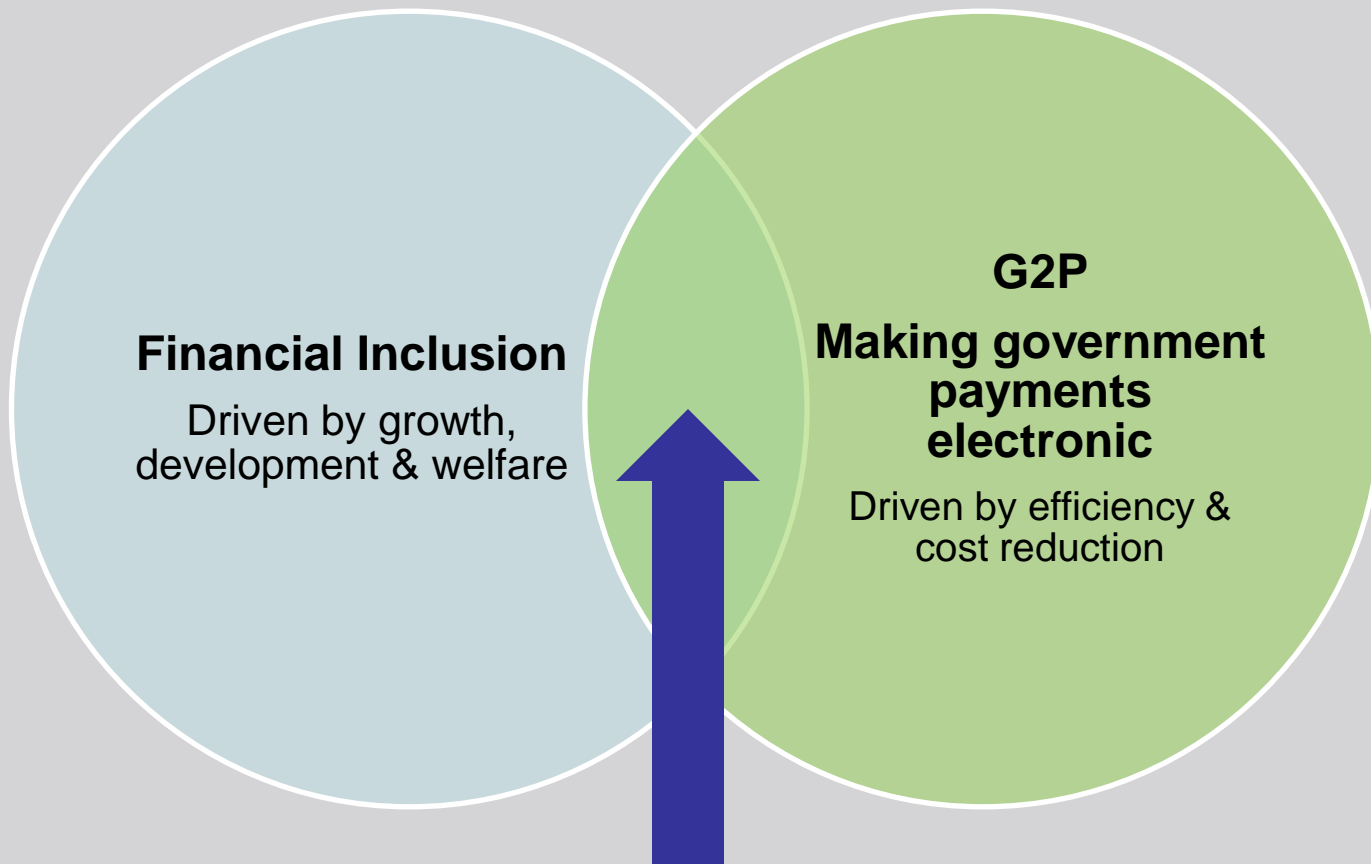
### ❖ Macroeconomic/ growth:

- Deepens and widens financial sector and intermediation

### ❖ Social:

- Contributes towards greater social inclusion

# A marriage made in heaven?



The courtship is underway; but prospects for a sound marriage depend on looking beyond simple overlap to understanding the drivers of each key party



# But how hard should governments push

## Mexico: a shotgun wedding?

*“Is Grandma ready for this?”*

*Mexico Kills Cash-based pensions and welfare by 2012”*

- All government agencies required to make all disbursements electronically by December 2012
- Initial drivers were efficiency and transparency; but widened to embrace concerns for financial inclusion
- Oportunidades CCT; 5.8m households, of which 85% were cash paid in 2010 but moving to payout from bank accounts via agents
- Also with other incentives: e.g. fiscal subsidy for rollout of POS country wide (FIMPE) 2005-2008

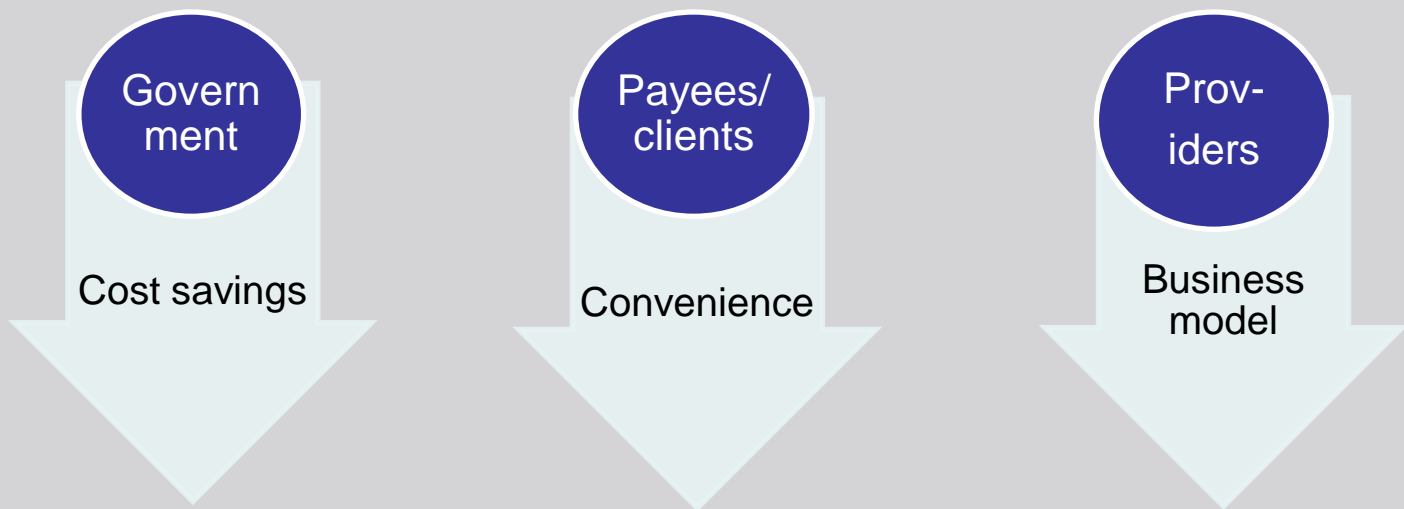
Source: Fletcher School/BFA case study 2011

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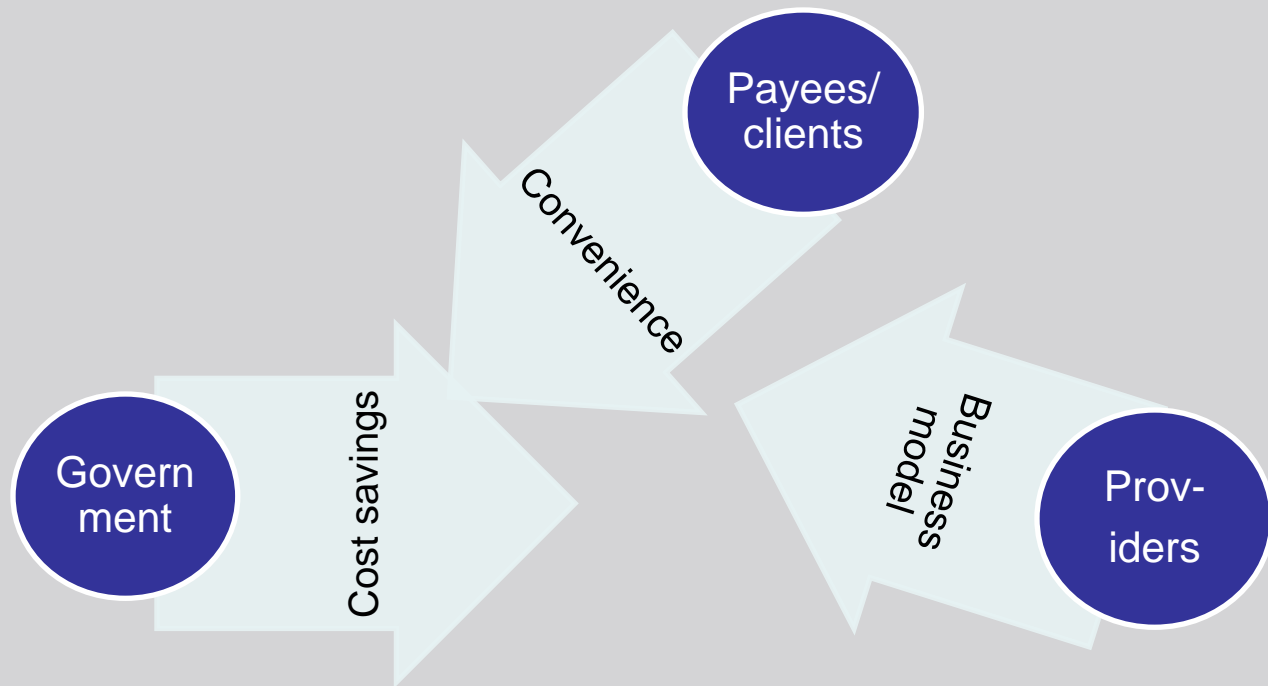
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# For the marriage to work, the interests and incentives of the three main stakeholder groups must align



**This is not necessarily the case: some G2P approaches simply redistribute costs & benefits with no overall societal benefit**



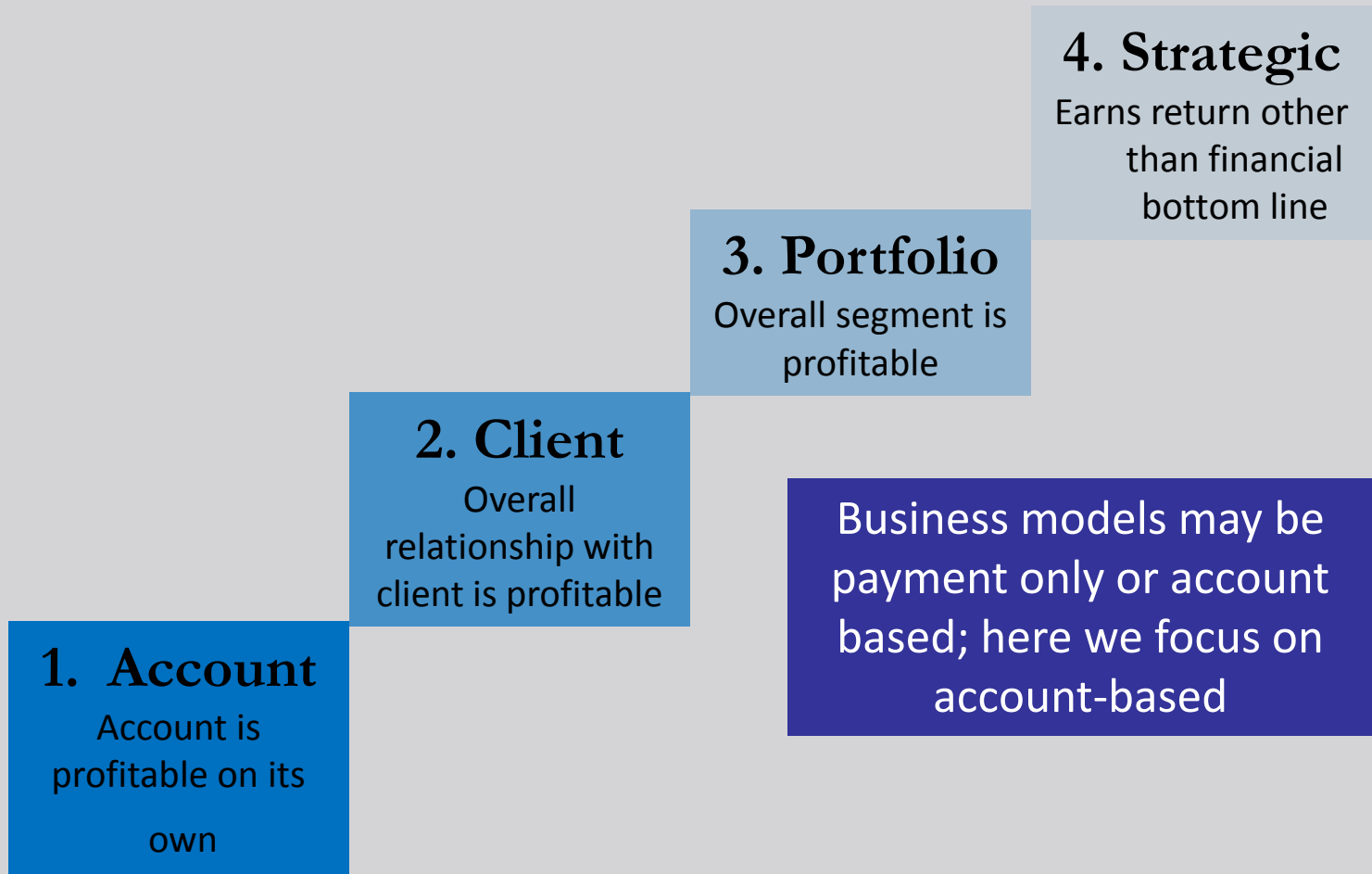
For example, in a low infrastructure environment, government's moves to cut costs can either 'tax' banks or clients who are required to absorb travel & instrument costs



## Government is not monolithic: cash transfer programs often have to balance potentially competing objectives

Objective	Social agency	Treasury
(a) Minimize delivery cost to government	4	1
(b) Minimize time & cost of beneficiary to collect	1	4
(c) Minimize leakage	3	2
(d) Minimize time to implement payments at scale	2	3
(e) Maximize additional developmental benefits	5	5

# For providers, the business case for low value accounts must be sustained at one or more of the following levels



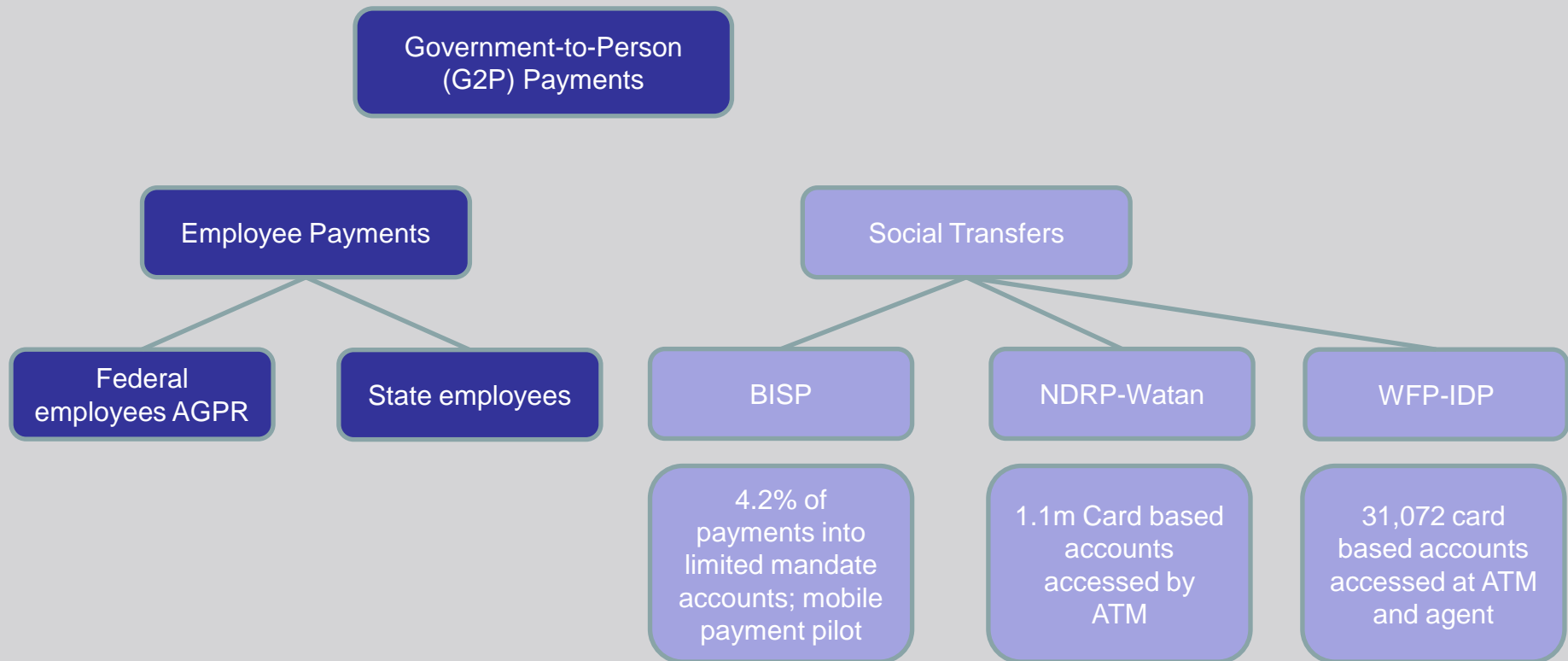
# Clients

- ❖ We find strong underlying demand for safe, reliable, convenient financial services in most places where formal institutions are trusted
- ❖ However: experience of basic bank accounts often disappointing if the expectation was that adoption would lead to automatic usage
  - High dormancy
  - “Dump & pull” behavior
- ❖ Convenience and security weighted highly—active portfolio management underway

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# Mapping G2P payment flows



SBP has initiated work to map and monitor payment flows but this is a complex exercise involving cross cutting cooperation

# Client research

Focus group research, conducted by SBI Pakistan in April 2011, sought to explore the range of available payment mechanisms

	BISP			Watan	WFP		Total
	Post	Smart Card	Mobile	Watan Card	Cash for work	IDP	
Payment mechanism	Doorstep delivery	Agents	Branch	Branch /ATM	Agent	ATM/ Agents	
Number of respondents	43	21	17	54	30	15	154
% Women	100%	100%	100%	52%	60%	0%	73%
% Illiterate	88%	95%	76%	70%	57%	27%	74%
Average months since first transfer of this type	29	8	1	3	2	3	15
Geographic areas included in sample	Fateh Jeng & Rawalpindi	Mirpur Khas	Larkana	Buner Now-shera Muzafargarh	Buner Now-shera	Buner Now-shera	





# Clients show evidence of learning



- ❖ Clients rate convenience highly
  - Repeated trips to branches incur high costs
  - Branchless models (PP and agents) valued highly
- ❖ Human support helped adoption
  - Role of NGO with WFP
  - Role of Omni agents
- ❖ Security concerns greatest with long distance travel, not village collection
- ❖ Reliability of payment timing matters but is often lacking
- ❖ Evidence of risk but also mitigating strategies
  - Remembering and using PINs has been problematic

# Most banks interviewed already offer a standard basic bank account

SBP conducted structured interviews with five banks, four of which currently offer account-based services for cash transfer payments

Also: UBL case study for CGAP : [http://www.cgap.org/gm/document-1.9.50409/CGAP\\_UBL\\_case\\_study\\_Jan\\_2011.pdf](http://www.cgap.org/gm/document-1.9.50409/CGAP_UBL_case_study_Jan_2011.pdf)

Name of product	Level 1 or Limited mandate accounts
Minimum opening balance	Generally 0 or PKR100
Minimum balance to maintain:	Nil
Monthly fees to client	None
Docs required to open an account	CNIC / NADRA Verification Slip
Account opening	Generally branch and agent
Restrictions on account	Generally maximum balance or tx as per regulation
Cash in/out locations	Branch, ATM (with card) Agent

# Most providers seem to believe that client relationship can be profitable over time

Objectives for payment arrangements	
Corporate social responsibility	1
Gaining new clients	2
Winning other profitable business from government	3
Making a profit on each recipient account	4
Earning fee revenue from government	5
Other: new disbursement models; or additional products for clients	

Business case for small value accounts is made at this level (no of banks)	
Level 1 (account)	1
Level 2 (client)	3
Level 3 (portfolio/segment)	4
Level 4 (strategic)	2



“Accounts of small balance customers can become profitable over time if customers grow their balances” (average=completely agree)  
“We understand well the business case for G2P” (average=agree)

# Obstacles reported by providers

- ❖ Remarkably few but:
  - Requirement for minimum number of branches to participate in payments (EOBI)
  - KYC requirements in moving from a limited mandate account to a normal level 1 account.
- ❖ Mental models:
  - Cross selling limited: agree that business case rests on cross-selling yet few actively do so

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## The dowry of a 'cash lite' world

- ❖ In a 'cash lite' world, electronic payments to and from individuals are pervasive. Cash is displaced but not replaced.
- ❖ This requires:

	Pakistan 2011	Norm	Status 2011
1. Pervasive cash handling network Branch/ATM/Agents per 100,000	15.5 ↑	128 Brazil	Growing fast
2. Widespread issuance of electronic stores of value DR cards per capita	0.06	1 BRIC	Not yet
3. Reliable affordable convenient immediate electronic payment instruments which reach large numbers of people E transactions per capita p.a.	1.1	>87 Brazil >250 UK	Not yet

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## Way forward

- ❖ Pakistan is already promising global laboratory of branchless banking approaches
- ❖ Pakistan is also on the early stages of the road to 'cash lite'
- ❖ Accelerating this journey will require cooperation, alignment and possibly coordination within and across public and private sectors
- ❖ Today's discussions provide an opportunity to explore together.