



# BRANCHLESS BANKING NEWSLETTER

LEVERAGING TECHNOLOGIES AND PARTNERSHIPS TO PROMOTE FINANCIAL INCLUSION

Issue: 4

Quarterly: April - June 2012

## Inside

- Branchless Banking Analysis (03)
- Growth Snapshot (05)
- Events (06)
- Local News (08)
- International News (09)
- Interview with Industry Leader (10)
- Special Section (13)



**STATE BANK OF PAKISTAN**  
DEVELOPMENT FINANCE GROUP

## Team Leader

**Dr. Saeed Ahmed**  
([dr.ahmed@sbp.org.pk](mailto:dr.ahmed@sbp.org.pk))

## Team Members

**Qazi Shoaib Ahmed**  
([qazi.shoaib@sbp.org.pk](mailto:qazi.shoaib@sbp.org.pk))

**Fouzia Aslam**  
([fouzia.aslam@sbp.org.pk](mailto:fouzia.aslam@sbp.org.pk))

**Shahbaz Shahid**  
([shahbaz.shahid@sbp.org.pk](mailto:shahbaz.shahid@sbp.org.pk))

**Rajesh Raheja**  
([rajesh.raheja@sbp.org.pk](mailto:rajesh.raheja@sbp.org.pk))

**Sharoon Rasheed**  
([sharoon.rasheed@sbp.org.pk](mailto:sharoon.rasheed@sbp.org.pk))

## Acknowledgement:

State Bank of Pakistan wishes to acknowledge valuable contributions and data support from Tameer Microfinance Bank (Easypaisa), and United Bank Limited (Omni).

## Contact us:

Agricultural Credit & Microfinance Department,  
State Bank of Pakistan,  
I.I. Chundrigar Road, Karachi.

Phone: 021-3245-3547/3570  
Fax: 021-99212567

E-mail: [branchlessbanking@sbp.org.pk](mailto:branchlessbanking@sbp.org.pk)

URL: <http://www.sbp.org.pk/publications/acd/branchless.htm>

**Disclaimer:** Whilst every effort has been made to ensure the quality and accuracy of this newsletter, the State Bank of Pakistan makes no warranty concerning the content of this newsletter. The content and comments in this newsletter are provided for educational purposes and for general information only. In no event will the State Bank, its affiliates or other stake holders be liable for any mistakes. The analysis presented in this newsletter is for the quarter only, whereas, the news and events are covered till the date of issuance of the newsletter.

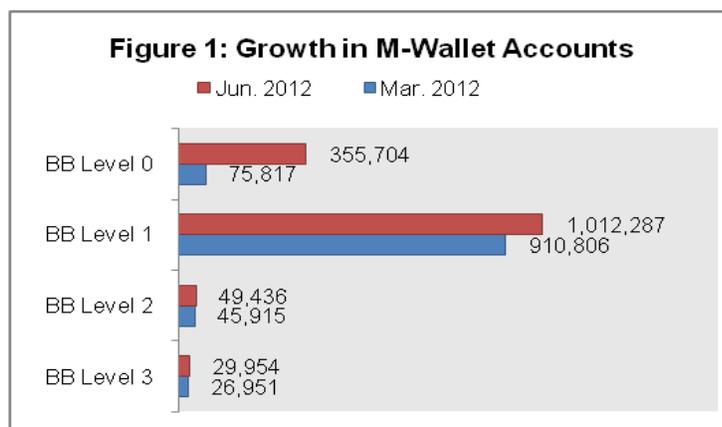
More than 28 million transactions worth of Rs.115.3 billion have been processed during the 2<sup>nd</sup> Quarter of 2012. On cumulative basis, 1.45 million mobile banking accounts have been registered; and usage level of these accounts has also been growing, signifying positively on the adoption of BB channels in Pakistan. Agents' network has grown to 29,525 spreading across almost 90% districts of Pakistan. Along with increase in overall network, the performance of agents is also improving over time. Six more banks have obtained approval for branchless banking and are entering / have entered in pilot phase before rolling out their full-scale BB operations.

## M-Wallets Usage Increases by 66% during Q2 of 2012

Number of mobile banking accounts has reached at 1.45 million, experiencing a remarkable growth of 37% during 2<sup>nd</sup> Q of 2012 (Figure 1). The accounts' activity level has also improved substantially during the quarter as the number of active accounts increased by 66%. This growth is attributable to a notable increase of 370% in Level '0' accounts opened entirely by UBL 'Omni'. This also resulted in improved share of Level 0 accounts in the total numbers from 7% in Q1 2012 to 25% in Q2 2012. It is worth-noting here that the other BB provider 'Easypaisa' is also in preparatory phase of opening level '0' accounts. The recent growth in level '0' accounts is largely characterized by regulatory flexibility in account opening, agents' incentives, and growing awareness among customers etc. The other mobile banking account categories i.e. Level 1, 2 & 3 have also grown positively by 11%, 8% & 11% respectively during the quarter. It is pertinent to mention here that females, running small businesses such as beauty parlor, boutiques, and grocery stores have also showed interest in opening Level 3 accounts to act as BB agents (Table 1).

**Table 1: No. of BB Accounts as of 30<sup>th</sup> June 2012**

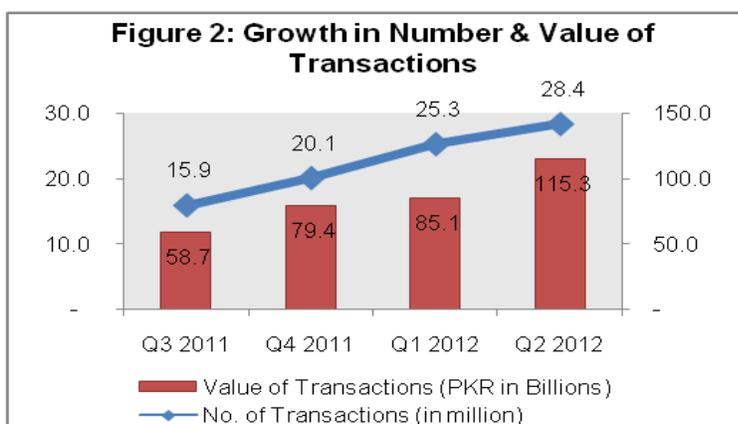
	Male	Female	Total
<b>Level 0</b>	19,269	336,435	<b>355,704</b>
<b>Level 1</b>	900,878	111,409	<b>1,012,287</b>
<b>Level 2</b>	46,600	2,836	<b>49,436</b>
<b>Level 3</b>	29,882	72	<b>29,954</b>
<b>Total</b>	<b>996,629</b>	<b>450,752</b>	<b>1,447,381</b>



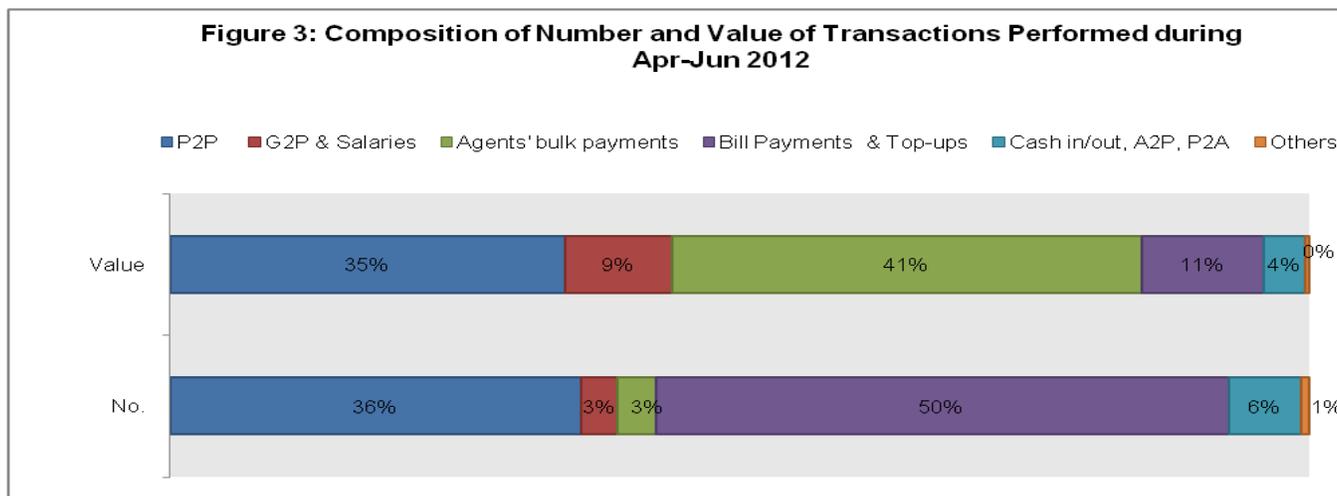
Though the account activity level has improved during the quarter but sustainability of such growth and usage remain a key challenge as some gaps exist in the value proposition of mobile wallets. For example, existing agent network is serving as only for 'cash-in and cash-out' without accepting the mobile money for selling its products (groceries, foods, etc.). The BB players need to look at more and more avenues for customers to utilize m-wallet accounts balance. There is also a need to review transaction cost for customers and commission structure for agents, particularly with respect to volume of transactions rather than value of transactions, just like bulk SMS and call packages offered by Telecom companies. This will help out in generating volume of transactions which will eventually increase the overall revenue and profitability for both agents as well as banks.

## Transactions on the Rise

More than 28.4 million transactions worth of Rs. 115.3 billion have been conducted during the quarter ending June 2012. The number and value of transactions per quarter have grown rapidly during the Q2 2012 by 12% and 35% respectively (Figure 2). The growth in value of transactions is almost 3 times more than the growth in number of transactions; accordingly the overall average size of transaction has increased from Rs. 3,853 to Rs. 4,065 during the quarter.



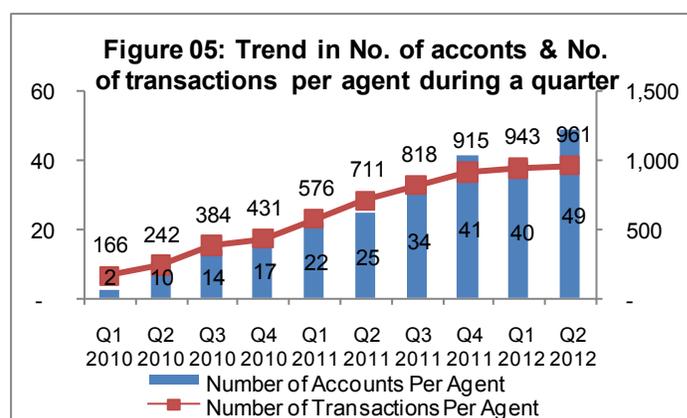
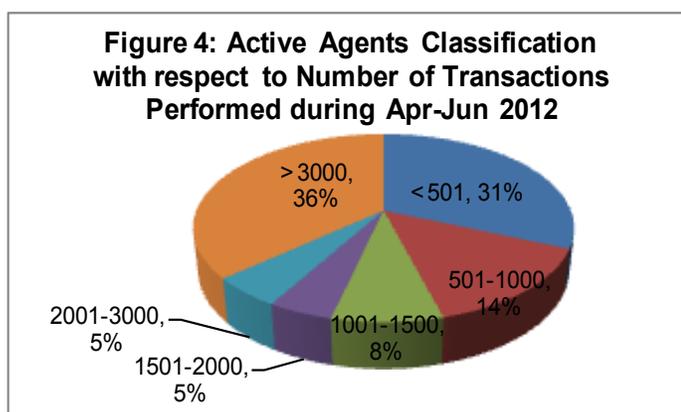
However, the average size of utility bill payments and domestic remittances (P2P) are Rs 1,033 and Rs 3,895 respectively which shows that the technology is helping access the hitherto unbanked low income people.



The composition of transactions has remained almost similar to the previous quarter. In value terms, agents' bulk transfers (purchasing e-float, depositing excess cash in their accounts etc.) topped by 41% share followed by P2P payments and Bill Payments & Mobile Top-ups with 35% and 11% shares respectively. In number of transactions, bill payments & top-Ups have the biggest share of 50% followed by P2P transactions with 36% share (Figure 3).

### Activity level of agents is improving

The agents' network has reached at 29,525, adding 3,194 new agents during the 2<sup>nd</sup> quarter of 2012. The activity level of agents has slightly improved as number of active agents has increased by 12% as compared to 10% growth in total agents. Number of transactions per agent (total transactions performed during a quarter divided by total number of agents) has rapidly increased from Q1 of 2010 and onward (Figure 05). Moreover, number of accounts per agent (total number of accounts divided by total number of agents) has also presented the similar results (Figure 05). These historical trends indicate that the performance of agents has improved along with numbers. The industry players are also achieving economies of scale by ensuring that each agent will handle more transactions and thus have a consistent revenue stream.



### Detail/Status of Branchless Banking Approvals

**Will Start Pilot**

- Meezan Bank

**In Pilot Phase**

- Dubai Islamic Bank
- Askari Com. Bank
- MCB Bank
- Habib Bank
- Waseela Microfinance Bank

**Live**

- Tameer Easypaisa
- UBL Omni

# Growth Snapshot

April — June 2012

Usage of mobile banking has increased by 66% during the quarter, showing rising acceptance of new financial technology solutions.

**Table 2: Key Indicators**

Indicators	Mar-2012	Jun-2012	Quarterly Growth
Total No. of Agents	26,792	29,525	10%
Total No. of Accounts	1,059,519	1,447,381	37%
Total Deposits as of Date (Rs. in Million )	594	753	27%
No. of Transactions During the Quarter (No. in million)	25.3	28.4	12%
Value of Transactions During the Quarter (Rs. in Million)	85,092	115,304	36%
Average Size of Transaction in Rs.	3,367	4,065	21%
Average No. of Transaction Per Day	280,798	315,178	12%

Performance of agents is increasing over time as number of transactions per agent per quarter has increased during the last quarters.

**Table 3: Volume & Value of Transactions**

**During the Quarter Apr - Jun 2012**

Transaction Type	Volume of Transactions (Nos.)	Value Transacted	
		Rs. in million	USD* in million
<b>Fund Transfers</b>			
Account-to-Account Fund Transfers	405,113	32,086	339
Person-to-Person Fund Transfers	10,238,899	39,881	421
Account-to-Person Fund Transfers	540,971	1,338	14
Government-to-Person Payments	868,427	10,782	114
Person-to-Account Fund Transfers	53,333	472	5
<b>Cash-in /Cash –Out Deposits</b>			
Deposit	1,136,571	2,178	23
Withdrawal	63,725	196	2
<b>Bill Payments &amp; Top-Ups</b>			
Utility Bills Payments	11,937,079	12,335	130
Merchant Payments	568,238	15,404	163
Mobile Top-ups	2,317,087	105	1
<b>Loan</b>			
Disbursement	-	-	-
Repayment	218,770	464	5
<b>Others</b>			
Donations	4,788	0.3	0.003
Salaries	3,468	59	0.6
Others	10,173	4	0.04
<b>Total</b>	<b>28,366,642</b>	<b>115,303</b>	<b>1,217</b>

\*USD 1 = Rs. 94.7196

Regulatory flexibility in account opening, agents' incentives, and growing awareness among customers caused substantial increase in level 0 accounts.

## Branchless Banking Events

*Till the date of Issuance of the Newsletter*

### **Agent Network Development Workshop**



Agricultural Credit & Microfinance Department, State Bank of Pakistan organized a workshop on Agent Network Development on May 31, 2012 at Learning Resource Center, SBP Karachi. The objective of the workshop was to review country case studies and develop a view on improving the agent network quality and other related matters in Pakistan.

Mr. Gerry Rasugu was the visiting speaker. He is a renowned global expert on agents' network development. He has a wealth of experience notably from the world acclaimed M-PESA where he set-up the agent network in Kenya that was responsible for taking financial services closer to the people. The workshop was attended by representatives from branchless banking providers, Telcos and ShoreBank International Ltd.

Mr. Rasugu shared his global experiences of developing agents network particularly in Kenya for M-Pesa. He also shared key findings from IFC's four market Branchless Banking study. While talking about BB opportunities in Pakistan, he acknowledged that new functionalities including simple user interfaces and services such as ATM withdrawals, merchant payments, transactions through mobile etc. are already

in place for some successful developments. Moreover, innovations, such as great opportunities for m-health, m-agriculture, micro-insurance, and micro-savings, will surface in future and have a positive impact on the economy. He also highlighted key challenges in Pakistan's branchless banking environment such as risk of abuse of BB services, sustainability and viability of models as well as agents, negative competitive tactics (price wars, sharing of agents etc.).

### **IFC Delegation Visited State Bank to get Up-date on Branchless Banking Developments in Pakistan**



An IFC delegation, comprising of six members, visited State Bank of Pakistan on 1<sup>st</sup> August, 2012 to gain understanding about the branchless banking developments in the country. Mr. Muhammad Ashraf Khan, Executive Director, Development Finance Group, SBP welcomed the delegation and briefed them about the achievements, issues and current development initiatives to promote branchless banking. The delegation attended round table sessions with senior officials from Development Finance and Banking Policy & Regulations Groups of SBP on branchless banking regulations and recent industry developments. The representatives from two branchless banking models Omni and Easypaisa also shared their current progress and future prospects with the IFC delegation.

### **Meetings of Sub-Groups of National Consultative Group for Branchless Banking**

A meeting of a Sub-Group on Code of Conduct for branchless banking was held on June 29, 2012 at State Bank of Pakistan. Mr. Mansoor Hassan Siddiqui, Director, Banking Policy and Regulations Department (BPRD) chaired the meeting. Mr. Siddiqui explained the participants that the aim of the sub-group would be to develop a proposal for code of conduct and ethical behavior that promote harmony in the relationship of all providers within the branchless banking industry. The participants discussed key issues and proposed recommendations.

Another meeting of a Sub-Group on Agents Development was also held on July 5, 2012 at State Bank of Pakistan. Dr. Saeed Ahmed, Head, Agricultural Credit and Microfinance Department (AC&MFD) chaired the meeting. Dr. Ahmed highlighted 'agents' as the most crucial access points to advance financial inclusion in the country. He stressed the need for determining an 'optimal size' of BB agents in the country to understand the dynamics of future market development in branchless banking. He urged the participants to come up with a proposal for agents' development. The participants had a substantive discussion and finalized their initial recommendations.

### **SBP, CGAP and PTA Meeting on Interoperability**

The CGAP team visited Pakistan in March 2012 to look into pathways to interoperability in mobile banking. The team conducted interviews with SBP, Pakistan Telecom Authority (PTA), banks, mobile network operators (MNOs) and third party switches/providers. CGAP also convened a workshop on May 07, 2012 in Islamabad to present their findings related to interoperability of mobile banking. The workshop, organized at PTA Headquarters in Islamabad, was attended by select officials of SBP and PTA. Some of the major topics of CGAP workshop were:

- Understanding how interoperability links to the goal of financial inclusion
- Framework of understanding of the definition and issues involved in interoperability
- Discussions on the pathways to interconnection that will result in large scale take up of branchless banking
- Relevant international insights from South Africa, Ghana, Columbia and United Kingdom

Based on their findings, CGAP in association with Bankable Frontier Associates prepared a report on interoperability of mobile financial services in Pakistan and global experiences on interoperability. The report is available at CGAP website ([www.cgap.org](http://www.cgap.org)).

### **Ecuador – Central Banks’ International Seminar On Payment Systems and Financial Inclusion**

The Central Bank of Ecuador (CBE) organized an International Seminar “Central Banks: Payments Systems and Financial Inclusion” in Quito during the first week of August 2012. As one of the most important events in the country, the seminar formed part of the celebration of the 85th anniversary of Ecuador’s Central Bank. The Seminar was sponsored by the Alliance for Financial Inclusion (AFI) and the Latin American Development Bank (CAF). The seminar was organized with the objective of promoting dialogue and exchange of international experiences. The Seminar discussed the role of central banks and payments systems in achieving financial inclusion. Country experiences of Pakistan, Philippine, Kenya and Brazil in promoting financial inclusion through branchless banking were the hallmark of the event.

Dr. Saeed Ahmed, Director, Agricultural Credit & Microfinance Department, State Bank of Pakistan delivered a presentation on ‘International experiences of mobile banking and future challenges’. Dr. Ahmed shared the key developments and the challenges faced by different countries in branchless banking. He mentioned that building a robust business ecosystem around branchless banking deployments will be vital to take branchless banking to the next level.

The event was attended by nearly 500 people from Latin America, including presidents and central bank managers, superintendents of banks and other public and private financial institutions, senior staff of the Ecuadorian government, representatives of the cooperative sector of Ecuador, inter-governmental organizations, multilateral organizations, experts, and academics all of whom related to the work of financial inclusion.

### **Mobile Financial Services Summit, Kathmandu, Nepal**



The USAID Nepal Economic, Agriculture, and Trade Activity (NEAT) hosted Nepal’s first Mobile Financial Services Summit on 20 – 21 June, 2012 in Kathmandu. There were around 20 experts from different countries representing different financial and IT organizations who participated as speakers. The summit set a stage for an interactive dialogue on how Nepal can successfully develop its mobile financial services sector and encourage further innovation in mobile money and branchless banking in Nepal.

The two days event focused on Mobile Financial Services - Regional Overview and Regulatory Frameworks, International and Local Models and Case Studies, Business and Transaction Volume Drivers, Operational Approaches to Mobile Financial Services, and Critical Issues in Making a MFS Business Operational. The summit captured ideas and concepts of experts, models that were successfully implemented locally and internationally. The event brought together local financial

institutes, mobile network operators and IT professionals who discussed on their possible future collaboration.

Pakistan’s representation in the event was made by State Bank of Pakistan and independent industry experts. Qazi Shoaib Ahmed, Senior Joint Director from State Bank shared experiences, achievements and challenges in the development of branchless banking in Pakistan. He highlighted the regulatory framework and market dynamics of branchless banking market in Pakistan.

### **Askari Bank, Zong launch branchless banking services**

Askari Bank Limited and Zong (China Mobile Company) have entered into an arrangement to launch branchless banking services in the country with its soft launch taken off from May, 2012. The pilot launch is offering conventional banking services, currently salary disbursement for large-scale organizations and account to account transfer through mobile channel. The service is powered by Inov8, which is one of the pioneer companies to provide mobile commerce service in the country.

(Source: [http://www.dailytimes.com.pk/default.asp?page=2012%5C05%5C25%5Cstory\\_25-5-2012\\_pg5\\_5](http://www.dailytimes.com.pk/default.asp?page=2012%5C05%5C25%5Cstory_25-5-2012_pg5_5))

### **NADRA to launch pensions disbursement program using its biometrics verification system**

NADRA is working on a comprehensive mechanism to facilitate pensioners by issuing them biometrics Smart Cards so that they could draw their pension from any biometrics enabled ATM of any bank. NADRA intends to launch in two phases a Pensions Disbursement Program using its Biometrics Verification System.

In first phase, all the pensioners across the country will be enrolled at NADRA Swift Registration Centers and will be issued Smart National Identification Cards. In the second phase, the pensioners will be able to draw their pensions from any of NADRA's E-Sahulat centers.

The pensioner along with his/her Smart National ID will visit his/her nearest E-Sahulat Franchisee where he/she will be verified by NADRA biometrics verification system before disbursement of the pension.

Holder of the card would not be required to withdraw the pension amount in one go. He/She will be able to withdraw any amount at any time at any biometrics enabled ATM of any bank.

(Source: <http://www.nation.com.pk/pakistan-news-newspaper-daily-english-online/national/29-Jul-2012/nadra-to-introduce-smart-id-card-for-pensioners>)

### **Khushhali bank announces branchless banking initiative**

Khushhali Bank Ltd. (KBL) is extending its partnership with ShoreBank International Ltd (SBI), to develop and roll-out KBL's branchless banking services in partnership with a national payment platform provider.

The initiative is an extension of the South Asia Micro Savings Initiative (SAMI), which was implemented by SBI with partners across South Asia, with support from the Bill and Melinda Gates Foundation.

By linking in with a leading existing digital payment platform, KBL will allow low-income customers to access not only savings, but also credit and other financial services over the platform, displacing cash over

time and allowing customers to better manage their economic lives.

The second phase of this project will allow KBL to offer its banking products through branchless banking channels, allowing it to expand penetration to the under banked and deepen access of financial services.

(Source: <http://www.thenews.com.pk/Todays-News-3-126059-Khushhali-bank-announces-branchless-banking-initiative>)

### **Allied Bank to Offer Mobile Banking Services**

Allied Bank Limited has inked a Technology Support Agreement for the deployment of mobile banking services with Sybase and Abacus Consulting.

Sybase is a SAP Company with expertise in mobile commerce services while Abacus Consulting will help Allied Bank in adapting the technology for mobile financial services.

Allied Bank's decision to deploy mCommerce solution will enable it to offer mobile phone based financial and non-financial services to its customers and help in extending financial inclusion to untapped market segments.

(Source: <http://www.nation.com.pk/pakistan-news-newspaper-daily-english-online/business/11-May-2012/abl-mobile-banking-service>)

### **Ufone acquires 100% shares in Rozgar Microfinance Bank**

Ufone (Pakistan Telecommunication Company Limited) is in advanced stage of acquiring 100 percent share of Rozgar Microfinance Bank with the objective of enhancing microfinance business through rolling out their branchless banking setup in the country. Initially the cellular company decided to acquire bank's major stakes but it subsequently decided to buy complete bank after negotiation with the management of Rozgar Microfinance Bank.

Rozgar Microfinance Bank is currently based in Karachi with four branches and five service centers located in different parts of the city.

(Source: <http://www.thenewstribe.com/2012/07/23/ufone-acquires-100-shares-in-rozgar-microfinance-bank/#comments>)

### **NADRA to introduce smart NICs in the country**

NADRA is set to introduce the Smart National Identity Cards (NICs) which has 36 security features and technologically is considered the most advanced card in the world today.

The Smart NIC Card would help the holders of the card access the entitled cash disbursement programmes, financial transactions, branchless banking, health insurance, life insurance and electronic voting.

(Source: <http://dawn.com/2012/07/20/nadra-to-introduce-smart-nics-in-the-country/>)



## **CBN, NDIC to insure mobile money subscribers**

The Central Bank of Nigeria (CBN) is working with the Nigeria Deposit Insurance Corporation (NDIC) to design an insurance so as to protect customers in the event of failure of any of the mobile payment operators.

The cashless policy will help achieve the CBN's objective of expanding, deepening and modernizing the payment system in Nigeria and also galvanize the CBN in ensuring that Nigeria ranks among the top 20 economies of the world in line with the nation's vision 2020 aspirations.

The CBN cashless policy was designed to break the traditional barriers hindering financial inclusion for millions of Nigerians and bring low-cost, secure and convenient financial services to urban, semi-urban and rural areas across the country especially through the mobile payment services.

This policy will create an environment for effective monetary policy implementation, establish a stable pricing system, and curb the menace of inflation which is deterrent to the growth and development of any economy.

(Source: <http://www.thisdaylive.com/articles/cbn-ndic-to-insure-mobile-money-subscribers/120412/>)

## **Nigerian Tech Company improves MFBS with new digital platform**

Africa's leading provider of Integrated Banking and Payment software platforms, AppZone Group has launched BankOne, a digital platform which allows customers of Nigerian micro-finance banks (MFBS) to access and operate their accounts right from the comfort of their homes and offices. The platform allows micro-finance banks to convert mobile devices to data capture terminals, positioning the sector to achieving "branchless" banking.

(Source: <http://www.ventures-africa.com/2012/07/nigerian-technology-company-improves-mfbs-with-new-digital-platform/>)

## **Thailand considers mobile banking for Government microfinance**

Thailand's Ministry of Finance (MOF) is considering mobile banking system as a potential option to solve the informal debt problem. The main cause behind the government's failure to solve the informal debt problem is the lack of support from loansharks who charge exorbitant interest from borrowers who do not qualify for

official public or private loans.

The MOF has studied successful solutions from many countries to solve this problem, and currently is examining the M-Pesa project of Kenya as a potential model solution.

Loans will be given by the government banks directly to citizens without the involvement of private banking institutions or local creditors. This micro financing system has been deemed suitable to solve informal debts for people who only need a few thousand dollars. Borrowers can call the government's bank and get money transferred to their account instantly.

(Source: <http://www.futuregov.asia/articles/2012/aug/04/thailand-consider-mobile-banking-govt-microfinance/>)

## **Smart forges remittance, micro insurance tie-ups**

Smart Communications has forged more alliances in mobile money transfers or remittances for overseas Filipinos sending money to beneficiaries in the Philippines. The latest tie-up by the company is with mHITS, a pioneering developer and operator of mobile payment services in Australia.

The users of mHITS' remit mobile remittance service will now be able to send money to over 50 million Smart mobile subscribers in the Philippines. It allows users in Australia to send money safely and conveniently to partner mobile wallet operators in other countries, such as Smart, simply by sending an SMS.

The arrangement between Smart and mHITS allows for instantaneous, transfer of funds directly to a recipients mobile wallet account without requiring a transfer agent or bank. Senders can conveniently perform a transaction from their mobile phone at any time and require only the mobile number of the recipient in order to send money.

(Source: <http://www.microfinancegateway.org/p/site/model/template.rc/1.1.16298/>)

## **Fino buys Nokia's mobile payment services business**

Financial inclusion facilitating firm Fino has acquired Finnish handset-maker Nokia's mobile payment services business in India that will help it enter the prepaid mobile payments segment.

(Source: [http://articles.timesofindia.indiatimes.com/2012-06-27/telecom/32440789\\_1\\_financial-inclusion-finnish-handset-maker-bank-accounts](http://articles.timesofindia.indiatimes.com/2012-06-27/telecom/32440789_1_financial-inclusion-finnish-handset-maker-bank-accounts))



MCB Bank Limited is reputed as one of the leading banks in Pakistan. MCB always remain in forefront to facilitate its customers with the technology led solutions like ATMs, POS, Internet etc. Now, the bank has acquired the license for initiating branchless banking in the country under the brand name 'MCB Lite'. We have interviewed Mr. Qasif Shahid, Head Remote Banking & Business Development, MCB Bank to share MCB's experiences in branchless banking and their future prospects.

### **Can you shed some light on your early experiences with mobile payments?**

Most financial services professionals know from their experiences that internal bank deployments tend to be costly, time consuming and difficult. In our case we opted for a shared platform set-up and decided to focus on offering the service to our existing customers first. This quick-to-market approach ensured that we were the first to launch a transacting mobile payment service in the country. The service was commercialized in the mid of 2009.

MCB Mobile is a telco/handset agnostic service through which millions of our existing customers can link ATM/Debit cards to their mobile phones. So far we have clocked several million transactions worth well over 15 billion rupees through the mobile channel. The service was nominated to win the best mobile payment service award by the GSMA in Spain Barcelona in 2010 and was one of the four finalists for 'The Banker' award for the most innovative service launched by a bank during 2009. In November 2010 the innovation won the award for the best mobile-led money program launched by a bank globally by the MMT forum run by the UK based Clarion Group.



### **Why MCB chose a shared platform instead of building its own infrastructure to rollout its mobile-led payments strategy?**

Commercializing payment innovations and subsequently changing customer behavior through them is a risky business. In our view the best way to approach such a high stakes play is to work with a 'specialized partner' that buys into the risk alongside the bank as it attempts to make an innovation work in the market place. Our partner is tasked with owning and managing the non-core parts of the innovation such as the technology infrastructure, its subsequent scalability, performance etc. This division of responsibility allows us to solely focus on what we call the core parts of the innovation. Some of which involves constructing new payment functionality, building customer centric experiences and processes, positioning, segmenting and pricing various aspects of these payment propositions.

### **Can you please shed some light on MCB Lite and explain how it is different from MCB Mobile?**

We realized from the start that the key here was not about being a sideline spectator worried about which horse to bet on but instead it was about jumping into the arena right away. To us it was about gathering insights through pumping actual payments and converting customer behavior ahead of other players in the market. MCB Mobile and the strategy around the shared platform, selecting mobile-internet as the bearer channel and offering the service to our existing customers first was an attempt to do just that. In retrospect we were immensely successful as our approach helped us to start quickly and ahead of others. Today we have thousands of staff members as 'channel evangelists' with first hand experiences of how mobile payments 'save time and money' and improve the quality of one's life when incorporated as a 'digital payments' lifestyle choice as opposed to using cash, traditional banking or conventional modes of money management. Armed with this knowledge, our frontline staff interacts and converts several hundred customers onto the mobile channel daily and as a consequence we clock thousands of transactions worth millions of rupees every day.

We consider all this mobile-led payment activity and the transformed behavior of our staff and customers an asset and an advantage over the rest of the market. Today we sit on a huge reservoir of ever-growing data, analytics and active feedback loops that link back to customer profitability, usage and adoption trends. We value and treasure these insights as these form the very basis upon which we have constructed (and will continue to build) what we are calling the 'next generation of payment products and services' under the umbrella brand name of MCB Lite.

In short, MCB Mobile has really been a stepping stone for us to start the race quickly by first focusing on 'mobilizing or digitizing' the large bank from the 'inside' and MCB Lite is now an attempt to aggressively grow the bank and the market from the 'outside' by acquiring new-to-bank customers in the targeted segments.

**How is MCB Lite different from other branchless banking offers in the market?**

Today the excitement, awareness and the uptake in the market around financial inclusion is a direct function of the outstanding work put out by Telenor's Easy Paisa and UBL's Omni. Additionally there are other banking and non-banking players that are now at various stages of developing programs which also seem to be targeting the 'bottom of the pyramid' in attempting to bring the unbanked into the fold of financial inclusion. Since there is a lot of work unfolding and several players beginning to operate at the bottom of the pyramid, we at MCB have decided to own and occupy a different part of the opportunity pyramid.

Also we have discovered through our earlier work that in developing markets such as ours the subsequent introduction and transformation of people to mobile payments is mostly owned by the person at the top of the food chain or in other words the one with money who is usually supporting or paying others. This insight of ours rhymes well with the famous 'Rogers Innovation Adoption Curve' which states that 'trying to convince the mass (85%) of a new innovation is counter-productive and the early adopters and the innovators (15%) should be targeted first'.

So to cut the long story short, initial releases or versions of MCB Lite have specifically been architected, positioned and priced keeping in mind a segment that we have defined as the 'digitally savvy'. Simply put: this is a group of people who own and use mobile-internet enabled handsets but do not have ready access to digital or electronic banking services or payments. Although not a very large group by numbers today, it is tipped to be one of the fastest growing segments in the foreseeable future.

**What are the unique features of MCB Lite and when do you plan to launch the service?**

The innovation is already in production. The beta version is currently in the staff launch phase and will be commercialized within 2012. MCB Lite is a 'socially connected payments solution' that lets you control your finances and make payments through the use of a mobile phone and a Visa card.

Our experience in running large scale payment businesses and electronic channels has enabled us to optimize the payment experience through mixing the existing and the new as per the needs of the present market. The offer is engineered in such a way that the branded Visa card allows our customers to conduct 'proximity payments' in and outside Pakistan through millions of merchant locations and ATMs. The mobile part of the proposition largely focuses on enabling our customers to conduct 'remote payments' not just in Pakistan but from anywhere in the world.

The great thing about our product design is that the benefits are not just limited to the individual user but these extend to the 'inner circle' as well....the 6 to 8 people whose lives are intertwined and interwoven and the ones he or she loves and cares about the most. We have discovered through our earlier work in the mobile payment space that these solutions yield the greatest benefits in terms of 'time saved and money saved' when practiced and established in small groups of people as a 'lifestyle choice' as opposed to using cash.

We now know that our customers appreciate the luxury to be able to wait till the last minute to make payments and not only that they want the option of paying as little as required in any given instance. Why? Because they know that they could always pay, load or send more money a few minutes later and that too without much effort, time or money spent.

Keeping these powerful insights in mind we have 'demonetized' digital payments and have made them absolutely 'free' of bank charges (only an annual fee applies) so that our customers and their 'inner circle' can enjoy the benefits of being on the 'Mobile Payments Grid' without the worry of paying a charge every time a payment is made.

The mobile wallet works with any/all telecom service providers in Pakistan and runs on any/all mobile internet enabled handsets or smart phones irrespective of the make or model. The Telco/handset compatibility feature with zero switching costs is specially designed to make the spread of the innovation easy.

**What are your long term objectives and how do you foresee the growth of MCB Lite in coming years?**

We feel that the real benefits of emerging mobile-based internet and smart phone technology can only be fully unleashed through large scale customer adoption and behavior change in the way payments are made. Such shifts in payment modes at a national level over time will ensure a much lesser reliance on cash as a means of everyday payments and will eventually lead us to a more digitized and a documented economy.

MCB has a history of commercializing payment innovations in this country and to name a few would be ATMs, Traveler cheques, internet banking and lately the mobile-enabled Visa card. Therefore owning the 'go digital' drive and planting the seed to unleash the digital payments revolution through the launch of future oriented payment products and services is very much in line with our legacy.

We believe that taking a lead in digitizing the economy and digitizing the payment behavior of millions of Pakistanis is an agenda and a cause which in its impact is truly commensurate with the size and the scale of the banking platform that MCB runs on.

**What is your plan in extending your services particularly in rural and remote areas of the country?**

The real strength of the MCB brand and our network actually lies in tier 2 and tier 3 cities. Not only do we have branches, ATMs and a highly committed frontline staff in these towns and cities but we also have an existing large base of customers equipped with deposit access plastics who have lately been introduced to mobile and merchant payments. We plan to leverage these hard-to-replicate real world advantages in Branch/ATM/POS network in aggressively growing customers and our footprint in rural and remote parts of the country where we currently face little competition.

Also through our earlier work in the mobile payment space and through our deposit access plastic issuance drives in these regions, the myth that rural folks in Pakistan are technology averse or shy stands shattered. Actually we have found the truth to be quite the contrary and to our utter surprise we have found people in these areas to be more willing and more able to adopt and absorb the 'new' (as opposed to their counterparts residing in larger cities) as long as there is a clear and compelling case for the innovation to improve the quality of their lives through saving them time and saving them money.

This we think is perhaps due to a combination of the slow pace of life that they enjoy in these areas which allows for a greater degree of time that they have at their disposal to digest the 'new' along with a stronger desire to move with the times and to live at the cutting edge of technology whenever the opportunities are presented to them.

**What about the literacy and education level of people in the country? How do you think this will impact financial inclusion and digitization of payments?**

I have never met anyone in Pakistan who is unable to count the money that they have earned or even the money that is handed down to them. There is another way of looking at this. Today we have close to 125 million SIM cards issued in the country with 90 percent plus connections as prepaid. This essentially means that almost everyone buys scratch cards, feeds in the numeric values or uses electronic means to load their mobile phones. This proves that these users are not only numerically literate but are also familiar with basic English syntax i.e. yes, no, enter, clear and so on.

Literacy now has a new definition. If you own a mobile phone and can load and operate it, you should be classified as someone who is literate and we feel that this is the only skill required to make payments or surf the internet using a handheld device.

The great thing about this new type of literacy is the fact that it is inversely proportional to age. The younger you are, chances are the more device-savvy you will be. More than 60 percent of Pakistanis are currently under the age of 25 today. The only instrument needed for initiating a banking relationship or owning a mobile phone or buying property is the digitized national ID card and the good thing is that more than 90 percent of the adult population has one now.

**How do you see the future growth of branchless banking, digital and mobile payments in the country?**

For disruptive transformation to take root there needs to be a huge unaddressed societal need. In our case it is the delta between mobile phone owners and bank account holders. Today we have close to 100 million people who own mobile phones but don't have bank accounts, mobile or digital wallets and therefore have unfulfilled payment needs. The gap is expected to grow slightly before it starts to narrow.

The definition of scale in retail banking is about to change in Pakistan. It has taken us 65 years to open 25 million accounts or thereabouts and in my view twice as many are now expected to be initiated within the next 5 years or so. What we are talking about now is to bring onboard the 'mobile payment grid' 50 million of those (over the next few years) who already own a mobile device backed up by a digitized national ID card.

There are other reasons why the financial inclusion and digital payment tsunami is upon us. For one, telecom providers in Pakistan have urgent and compelling reasons to innovate and bring mobile payments to the forefront. The voice channel alone is not growing and making the same waves as it once used to. This is not only because of the intense price wars that the telecom providers find themselves tangled up in but also unlike India and China where there are still 300 to 400 million people without mobile phones; Pakistan has only 20 to 30 million left.

The writing is on the wall. The banks must also innovate and grow faster than the market or else brace themselves to lose market share to cross industry players.

Thank you Mr. Qasif Shahid.

### Busting the Mobile and Branchless Banking Myths

Mobility is a multi-billion dollar industry. Healthy portions of the profits are retained in R&D. Therefore, a safe assumption can be that anything to do with mobility is an ever changing space. Multiple auxiliary industries and services stem from mobility and mobile payments and branchless banking is seen as one which can be termed fast moving. It's a revolutionary industry where the rules of play and tools available change constantly. Like any industry, but unusually for a new industry - has a series of assumptions, half-truths and outright misinformation that are accepted as truths. These handicap players at all points of the value chain.

We will list down a few to get some perspective for the local industry in comparison to what is happening around the globe and how we in Pakistan be myth busters.

#### **Myth 1: M-payments platforms are readily transferable across jurisdictions.**

*"M-PESA worked tremendously well in Kenya. It should work in every comparable jurisdiction and even those that have just some of the right 'recipe'."*

The Truth:

There are multiple replications of M-PESA in operation around the world, very few of them breaking even - let alone making a profit. Similarly, the mobile platforms across historically, culturally and financially enmeshed countries (the UK & Ireland; Australia & New Zealand; Germany & Austria) show enormous variance with regards to the type of platforms and uses for mobile payments. Hence there is no "recipe" for a universally acceptable platform.

#### **Myth 2: First World m-payments successes leverage the very best and latest technology.**

*"If I earn a relative fortune, live affluently and have access to the best technology can offer, my peers and I are not going to be interested in something utilizing the most basic of technologies."*

The Truth:

Australians have one of the world's highest roll-outs of broadband. 80% of homes have a broadband connection and internet penetration is at about 95%. Cellular penetration went through the 100% level four years ago. 15% of Australians accessed the internet via a smart phone last month. Yet the most successful and most popular mobile payments application utilizes not much more than simple SMS technology.

Across the continent, in the US the uptake of mobile payment solutions is almost entirely centered upon the affluent.

#### **Myth 3: The physical money industry is counting its last days and preparing to curl up and die in the face of increased mobile payment roll-out.**

*"Surely these folks see the writing on the wall? Mobile payments are the future and cash must be an endangered species!"*

The Truth:

The printing of physical cash is a multi-billion dollar industry that

is growing, not shrinking. The industry has no plan to make any room for mobile payments. Polymer banknotes in some jurisdictions have been said to have made cash cleaner and longer lasting, thereby making it more attractive to handle and hold. Financial regulators are increasingly imposing increased cash threshold reporting requirements on businesses and introducing new reporting requirements.

#### **Myth 4: If you build it, they will come!**

*"My platform is the best/innovative/secure/revolutionary/ new/ amazing/connected, and whatever else you can think off, that it has to be a success!"*

The Truth:

People are reluctant to change or to take a risk. The market is not under any obligation to help anything be a success. Your product might differ in multiple different ways to what has already been successful but that doesn't mean the potential end-user is going to grasp that. Getting that magical uptake and adoption into the market is now perhaps the biggest challenge in mobile payments. For example service industry like online-shopping which require mobile payments, first need to provide an experience which will drive usage to their virtual stores, before mobile payments penetrates the business vertical.

#### **Myth 5: Handset penetration will carry on growing until everyone has at least one.**

*"It makes sense. Phones are getting cheaper and cheaper and the first world's cast-offs make their way to the third world."*

The Truth:

In Indonesia, one of the world's largest jurisdictions, cell penetration has slowed almost to a halt. In Tanzania and in Pakistan some rural communities exhibit a system whereby a family unit shares a cell phone (but with multiple smart cards). These communities show little interest in changing the status quo.

#### **Myth 6: An independent agent network is a necessary evil that can never make a Platform more competitive except by being more widely spread.**

*"Independent agent networks are sadly sometimes necessary. Many agents will be dishonest and turn out to be the worst possible ambassadors for our brand. The service our clients get will be inconsistent and they'd better be prepared to count their change before they walk away"*

The Truth:

Quality doesn't need to be sacrificed for quantity. Both can sit nicely together. Through a novel incentive program, one Telco in Africa has raised the quality of the service given by its agents so that it is consistently superior to its bigger name rival across two countries. Weaker and dishonest agents have been forced out - straight into the service of the main competitor. The program has worked so well that the platform's number of agents is underestimated by the main competitor by at least half in one country.

**Author: Mr. Ali Abbas Sikander - CEO Monet,**

<http://www.monet-online.com/>