

# BRANCHLESS BANKING NEWSLETTER

LEVERAGING TECHNOLOGIES AND PARTNERSHIPS TO PROMOTE FINANCIAL INCLUSION

ISSUE: 5

QUARTER: JULY – SEPTEMBER 2012

## INSIDE:

Analysis..... (03)

Growth Snapshot..... (06)

Events..... (07)

Local News..... (11)

News from around the world..... (12)

Selected Reading..... (14)



---

**STATE BANK OF PAKISTAN**  
DEVELOPMENT FINANCE GROUP

## Branchless Banking Newsletter Team

### Team Leader

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

### Team Members

**Qazi Shoaib Ahmad** ([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.

## Branchless Banking Analysis

The branchless banking players were able to register growth of 25% in m-wallets, 7% in number of agents, 11% in number of transactions and 21% in value transacted during Jul-Sep 2012 quarter. The activity level of m-wallets and agents improved during the quarter. Level 0 accounts have shown significant growth during the last two quarters. Moreover, Waseela Microfinance Bank and Askari Bank Limited have launched their branchless banking services in November 2012 under the brand names 'Mobicash' and 'Timepey' respectively, indicating rise in the growth in the next quarter.

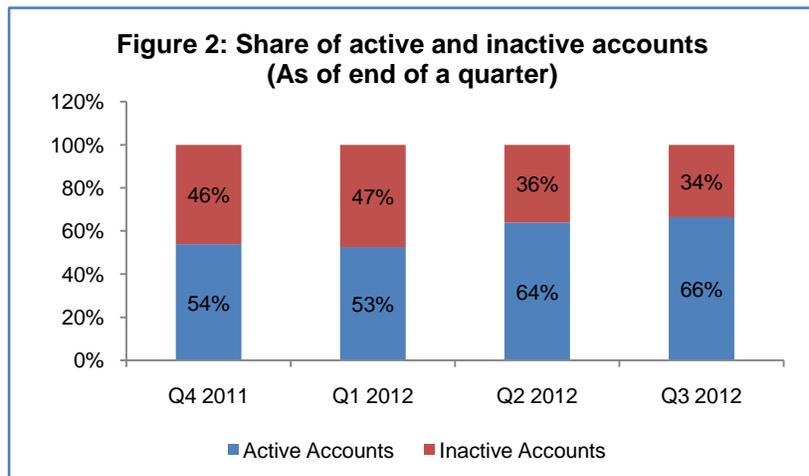
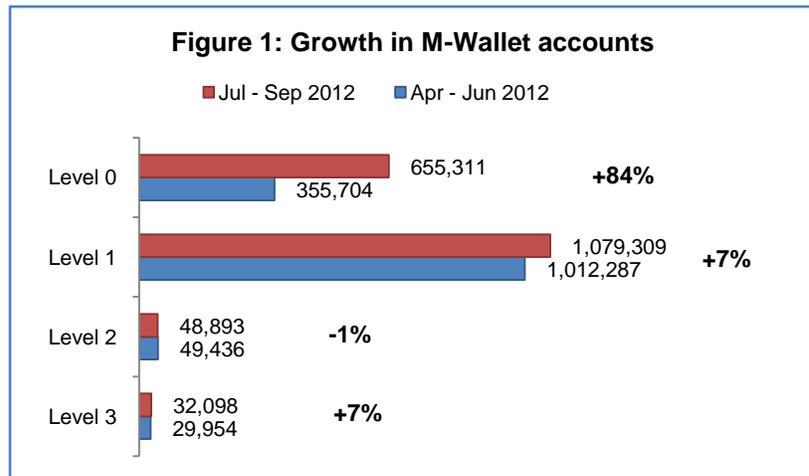
### The number and activity level of M-Wallets is improving

M-wallets have increased by 25% during Jul-Sep 2012 and reached to 1.8 million at the back of significant growth of 84% in Level 0 accounts and 7% growth in Level 1 accounts (Figure 1). The activity level of M-wallets has also improved as 66% of total accounts were active at the end of the quarter after posing 30% growth during July – September 2012.

The substantial growth in Level 0 accounts is mainly because Easypaisa started registration of Level 0 accounts during the quarter besides significant contribution by Omni in the same category. However, the number of level 2 accounts has declined by 1% during the quarter. Level 1 accounts still represent the largest category (59%) among M-wallet accounts followed by Level 0 accounts (36%) and Level 2 Accounts (3%).

The ratio of active accounts (did at least one transaction during the last 06 months) has increased from 64% in Q2 of 2012 to 66% in Q3 of 2012 (Figure 2). Level 0 and 3 accounts dominated the activity level as 93% accounts

in each category were found active, followed by Level 1 accounts and Level 2 accounts with activity level of 51% and 46% respectively. High level of activity in Level 0 accounts however is

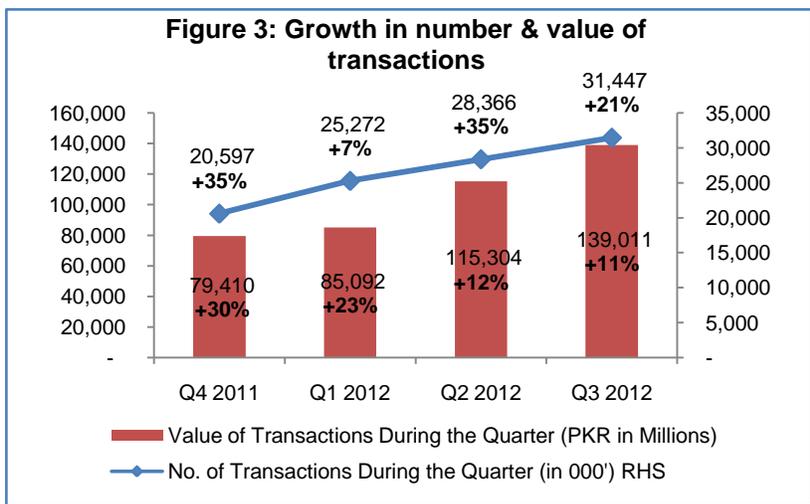


due to the fact that 89% of these accounts were opened during the last 06 months (April to September 2012). In contrast, only 15% of Level 1 accounts and 8% of Level 2 accounts were opened during the same period. Moreover, 66% of Level 0 accounts are directly linked with G2P welfare projects, hence registering flows relating to social payments.

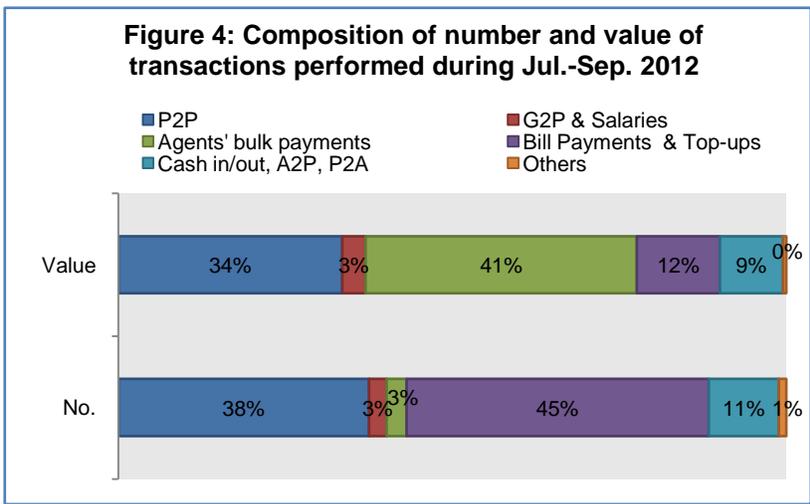
With the entry of new players, branchless banking services in Pakistan are heading towards growth and healthy competition. However, the success would depend on how the industry is able to overcome issues such as accounts activity level, agent quality and network, mass adoption of customers and their confidence on deposit-led solutions, and reliability of system & technology.

**Number and value of transactions are continuing their growth**

More than 31.4 million transactions worth of Rs. 139 billion have been conducted through



branchless banking channels during the quarter ending September 2012. The number and value of transactions have grown rapidly during the Q3 of 2012 by 11% and 21% respectively (Figure 3). The growth rate, however, has slightly declined as compared to Q2 of 2012.



The average size of transaction was Rs 4,420 during Jul – Sep 2012, while the average number of transaction per day increased to 349,411 from 315,178 during the quarter. Bills payment & top-up remained the dominating activity in the transactions with 45% share, followed by P2P, and deposits /withdraws /A2A/ A2P transactions with share of 38% and 11% respectively (Figure 4). It indicates that the Person to Person (P2P) payments is still the most popular service.

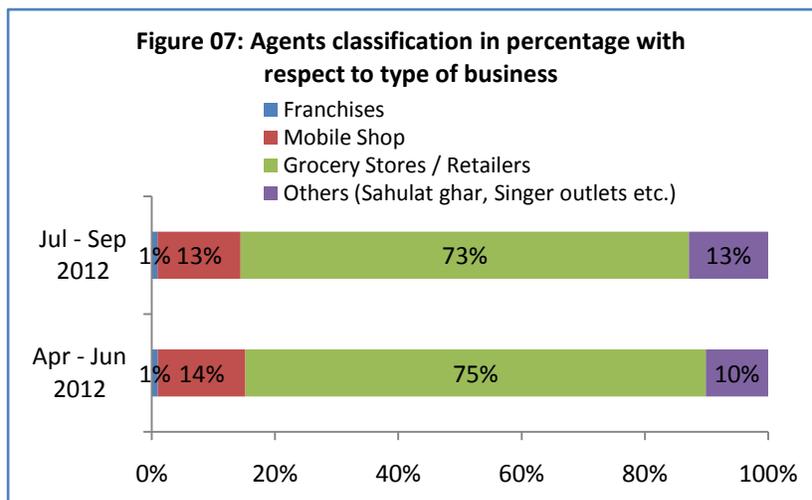
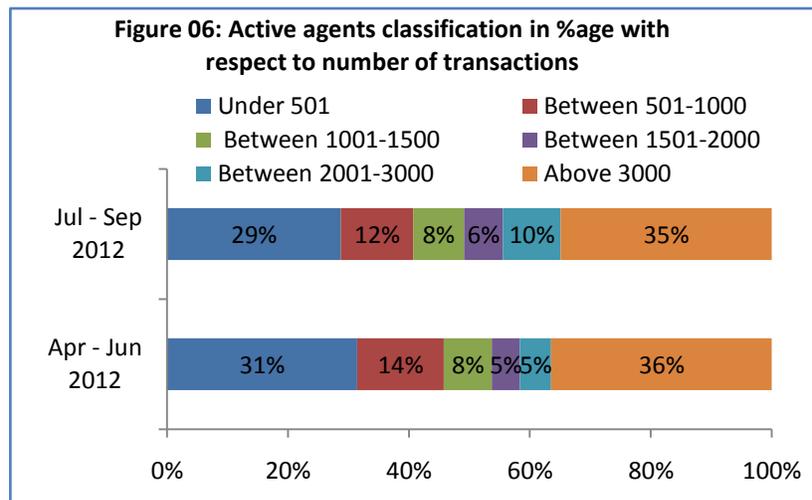
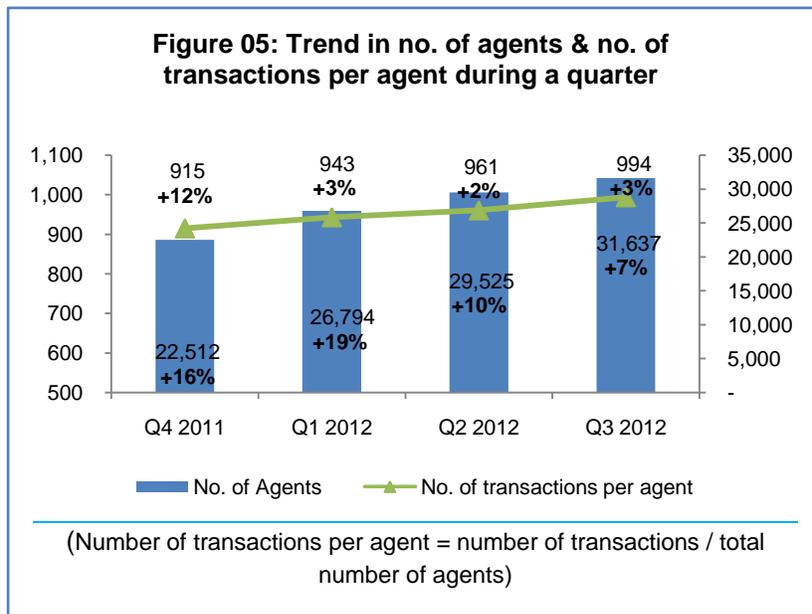
**Agent network is expanding**

Number of agents have reached at 31,637 showing 7% growth during 3Q 2012 (Figure 5) out of which 2,666 agents have been reported as an estimate for the shared agents. Moreover, the

agents' performance has improved during the quarter. On average an agent has performed 994 transactions during 3Q quarter 2012, which is 3% more than the previous quarter.

Figure-6 indicates that the %age of active agent performing less than 501 transactions during a quarter has reduced from 31% to 29%. Similarly, the share of those agents performing 1001 to 1500 transactions has reduced to 12% as compare to 14% in the last quarter. On the other hand, the shares of those agents who performed between 1501 to 2000 transactions and of those who performed between 2001 to 3000 transactions have increased from 5% to 6% and 6% to 10% respectively. This implies that the business case of such agents is gaining traction. However, the share of those agents performing more than 3000 transactions during a quarter has reduced by 1% primarily due to non-distribution of one of the welfare funds of the Government during the quarter.

Fig.-7 provides classification of agents with respect to type of business. Accordingly, 73% is the largest share contributed by grocery stores, followed by mobile shops (13%) and others category (13%). Though mobile franchises constitute the smallest category, they are providing full range of services including importantly account opening and liquidity management.



## Branchless Banking Snapshot

**Table 1: Key indicators**

Indicators	Jun-2012	Sep-2012	Quarterly Growth
Total No. of Agents	29,525	31,637	7%
Total No. of Accounts	1,447,381	1,815,611	25%
Total Deposits as of Date (Rs. in millions )	753	839	11%
No. of Transactions During the Quarter (No. in millions)	28.4	31.5	11%
Value of Transactions During the Quarter (Rs. in Millions)	115,304	139,011	21%
Average Size of Transaction in Rs.	4,065	4,420	9%
Average No. of Transaction Per Day	315,178	349,411	11%

**Table 2: Volume & value of transactions during the quarter Jul – Sep 2012**

Transaction Type	Volume of Transactions (Nos.)	Value Transacted	
		Rs. in millions	USD* in millions
<b>Fund Transfers</b>			
Account-to-Account Fund Transfers	385,586	39,160	413
Person-to-Person Fund Transfers	11,806,049	46,606	492
Account-to-Person Fund Transfers	888,537	4,972	52
Government-to-Person Payments	824,498	4,776	50
Person-to-Account Fund Transfers	49,840	349	4
<b>Cash-in /Cash –Out Deposits</b>			
Deposit	2,296,861	7,608	80
Withdrawal	73,857	225	2.4
<b>Bill Payments &amp; Top-Ups</b>			
Utility Bills Payments	12,171,414	17,176	181
Merchant Payments	549,803	17,311	183
Mobile Top-ups	2,054,834	99	1
<b>Loan</b>			
Disbursement	-	-	-
Repayment	318,265	646	7
<b>Others</b>			
Donations	6,864	1	0.011
Salaries	17	72	0.760
Others	20939	9	
<b>Total</b>	<b>31,447,364</b>	<b>139,011</b>	<b>1,466</b>

\*USD 1 = Rs. 94.8105

## Branchless Banking Events

### 2<sup>nd</sup> Meeting of D-8 Central Bank Governors of the D-8 Countries

Pakistan hosted the eighth Developing Eight (D-8) Summit on 22 November 2012 in Islamabad. Ahead of the Summit, a number of events/meetings were organized on the sidelines including 2<sup>nd</sup> meeting of the heads of Central Banks (20-21 November). The 1<sup>st</sup> meeting of the heads of Central Banks was held in Abuja, Nigeria, in July 2010 in which it was agreed that the next meeting would review the global and the D-8 countries economic situation and make recommendations for financial and monetary cooperation among the members.



Mr. Yaseen Anwar, the Governor, State Bank of Pakistan chaired the 2<sup>nd</sup> meeting of D-8 Central Bank Governors. Among agenda items related to economic and financial cooperation, the members of the meeting also exchanged views to highlight experiences of policy and development interventions for financial inclusion. Especially experience of policies and regulations governing

specific sectors/segments i.e. microfinance, SMEs, housing, infrastructure, rural and agricultural finance were discussed. Insights and lessons from regulations and policy experiences of promoting financial inclusion through transformational branchless banking were also presented.

In his opening remarks, Mr. Anwar stressed the need for collaboration amongst the D-8 central banks to provide useful insights and lessons from regulations and policy experience of promoting financial inclusion through technology-led innovations. He further stressed the need for formalizing cooperation by establishing regular information exchange and create peer learning opportunities amongst D-8 central banks and added: 'I would like SBP to take the lead and volunteer on financial inclusion issues particularly on microfinance and branchless banking development through a peer learning working group'.

On the Occasion, Mr. Kazi Abdul Muktadir, Deputy Governor, State Bank of Pakistan said that sustainability of economic growth can only be ensured through incentives to encourage investment in innovation and technology, and promotion of entrepreneurship. He further added that increased cooperation and deeper economic integration will enable D-8 countries to respond effectively to global challenges.

After the meeting, a joint communiqué was issued expressing the pledge of the Governors of Central Banks of Developing Eight (D-8) Countries to achieve sustainable and inclusive growth in a collaborative way. Specifically, the D-8 central banks will (a) formulate monetary and

financial policies to support sustainable growth strategy in D-8 countries in the backdrop of an uncertain outlook for the global economy, (b) promote Innovative Financial Inclusion Policies including branchless banking, (c) explore opportunities in Islamic Finance, and (d) establish information exchange and promote peer learning amongst D-8 central banks.

### **Tameer MFB & Telenor Pakistan Launched 'Easypaisa Khushaal' Product**

Tameer Microfinance Bank and Telenor Pakistan announced the launch of a new product called



easypaisa Khushaal in a ceremony held in a local hotel in Karachi on 16 of October 2012. Mr. Kazi Abdul Mukhtar, Deputy Governor, State Bank of Pakistan was the chief guest on the occasion. The product has been designed to provide financial cushion to easypaisa customers and their families.

Speaking at the event, Mr. Abdul Mukhtar said that such type of innovations in product design will not only attract small savings to generate internal funding for microfinance banks but also provide savers a sense of safety and security of insurance embodied with the product. He emphasized the need for introducing demand driven innovative products.

The Deputy Governor further said that the Government and the SBP have been supporting the microfinance sector to reach out to the millions of un-served low-income people of the country. This growth is facilitated by several factors, including an enabling policy framework, institutional reforms, technology initiatives, regulatory flexibility, tax incentives and technical support through different programs and projects.

### **Waseela Microfinance Bank Limited (WMFBL) and Mobilink announced commercial launch of branchless banking**

Waseela Microfinance Bank Limited (WMBL), in partnership with Mobilink, has announced the commencement of commercial operations for branchless banking in Islamabad on November 12, 2012. Kazi Abdul Mukhtar, Deputy Governor, State Bank of Pakistan was the Chief Guest on the occasion. He expressed the hope that the microfinance banks will take advantage of a favorable market environment by investing in innovative technologies and products in order to grow their businesses and expand access to financial services in Pakistan. The Deputy Governor, SBP said, 'microfinance and branchless banking are complementary to each other, and together they will bring the advantages of inclusiveness, convenience, ubiquity, and efficiency as Pakistan offers best regulatory framework and industry infrastructure for microfinance'.

The Deputy Governor pointed out that there is an emerging consensus amongst policy makers around the world that mobile financial services is a safe and sound way to rapidly improve access to financial services for poor people. He said that G-20 leaders in their last summit held

at Toronto in 2011 adopted 9 Principles for Innovative Financial Inclusion that include promoting technological and institutional innovation as a means to expand formal financial system access and its usage. ‘These principles aim to help the creation of an enabling policy and regulatory



environment for innovative financial inclusion. Such enabling environment will assist and determine the speed at which the financial services will be made available to more than two billion people who are currently excluded, where access to financial services can make the difference between surviving and thriving.

While speaking at the launching ceremony, Mr. Rashid Khan, Chairman, WMFBL expressed his gratitude to the SBP for acting as a progressive and supportive central

bank and creating an enabling environment for the holistic growth of microfinance in Pakistan. Mr. Ghazanfar Azzam, President and CEO, Waseela Microfinance Bank Limited emphasized that WMBL is uniquely positioned to have a transformational impact on the financial services sector in Pakistan. The approval for branchless banking will enable WMFBL to continue its efforts to research innovate and offer customer focused solutions that are easily accessible to the general public.

### **The 2012 AFI Global Policy Forum Held on September 26-28 2012, Cape Town, South Africa**

The Alliance for Financial Inclusion's (AFI) 4th Annual Global Policy Forum (GPF) was held in Cape Town, South Africa, on September 26-28, 2012 under the overall theme of “*Making Financial Inclusion Real*”. The GPF 2012 was the largest forum ever held by the AFI Network with more than 360 delegates and partners in attendance. AFI now includes more than 90 policymaking institutions from 84 developing and emerging nations, representing more than 75 percent of the world's 2.5 billion unbanked population. State Bank of Pakistan was represented in the forum by Dr. Saeed Ahmed, Director-AC&MFD, Mr. Akhtar Javed, Additional Director-BP&RD, and Qazi Shoab Ahmad, Senior Joint Director-AC&MFD.

The agenda covered technical discussions on the quality of financial access and usage and featured a high level debate and dialogue on both the potential and the real impact of financial inclusion on the lives of the world's unbanked.

A session on “Strategic Approaches for Taking Financial Inclusion to the Next Level” was held to focus on the role of financial inclusion strategies in accelerating progress towards full financial inclusion, the challenges that have been faced by countries in developing strategies, and the opportunity provided by the G20 Peer Learning Program. In this session, Dr. Saeed Ahmed, Director Agricultural Credit and Microfinance Department participated as a panelist along with Mr. Odo Tevi Governor National Bank of Vanuatu, Mr. Paul N. Eluhaiwe Director of Development Finance Department, Central Bank of Nigeria, and Mr. Juan Manuel Valle Pereña

Secretaría de Hacienda y Crédito Público, México. Mr. Amar Bhattacharya, Director of Secretariat, Group of 24 moderated the session.

Speaking at the session, Dr. Saeed highlighted three I's of successful financial inclusion strategies. (i) Information: National strategies founded on baseline data and diagnostics, (ii)

## Shaping a strategy

The three **I's** of successful financial inclusion strategies are:

**Information:** National strategies founded on baseline data and diagnostics

**Institutionalization:** A long-term structure and process to support the strategy

**Implementable:** Strategies that are realistic, do-able, and measurable

“

There are three obvious benefits to developing a national strategy: the insights gained through diagnostics, the process of setting milestones, and most importantly the creation of ownership among key stakeholders who take things forward.”



*Saeed Ahmed, State Bank of Pakistan*

(iii) Institutionalization: A long-term structure and process to support the strategy, and (iii) Implementable: Strategies that are realistic, do-able, and measurable. He also underlined the three obvious benefits to developing a national strategy: the insights gained through diagnostics, the process of setting milestones, and most importantly the creation of ownership among key stakeholders who take things forward.

The forum concluded with fresh initiatives and new Maya Declaration Commitments being announced. The announcement of 19 additional Maya Declaration Commitments was the highlight of the GPF 2012 final day, bringing the total number of institutional financial inclusion commitments under AFI's Maya Declaration to 35.

## Local News

### **World Bank, Financial Times praise SBP's regulatory role**

The State Bank of Pakistan (SBP) has gained international recognition for its regulatory role in microfinance and branchless banking by creating an enabling environment for their development in Pakistan. The world-renowned newspaper, Financial Times and the World Bank have praised SBP for its innovative approaches in expanding the access to financial services for the unbanked and underserved population of the country.

An article published in Financial Times on November 6 says: "Pakistan has one of the best regulatory environments in the world for microfinance and one of the fastest-growing microfinance sectors. It is also one of the most innovative places in the world for mobile banking services, partly due to the State Bank of Pakistan's moves to encourage the market."

The Consultative Group to Assist the Poor (CGAP) of the WB in its recent publication has also highlighted Pakistan as the fastest growing branchless banking market in the world and a laboratory of innovation. SBP has been playing a leading role while working closely with the industry through various policy and strategic initiatives to transform the financial market into an equitable system of efficient market-based financial services to the hitherto excluded poor and marginalized segments of the society.

Source: (<http://www.brecorder.com/market-data/stocks-a-bonds/0/1258622/>)

### **WMBL begins branchless banking with Mobilink partnership**

Waseela Microfinance Bank Limited (WMBL) has announced the commencement of commercial operations for branchless banking in Pakistan in partnership with Mobilink under the brand name 'Mobicash'. This announcement follows the approval by the State Bank of Pakistan for WMBL to launch Mobile Financial Services (MFS) in Pakistan.

WMBL plans to introduce mass market financial products for providing more choices and benefits to the people of Pakistan, which include cash deposit & withdrawal, fund transfer from account-to-account, and person-to-person, top-ups and utility bill payment amongst other services.

Source: (<http://www.brecorder.com/money-a-banking/198/1258415/>)

### **Askari Bank Limited launches its branchless banking services**

Askari Bank Limited in partnership with Zong, a cellular company, launched a technology-based branchless banking service under brand name 'Timepey'. According to the CEO of Zong users will be able to pay utility bills, transfer money to specified recipients anywhere in the country, deposit and withdraw cash and carry out account transfers.

Source: <http://www.brecorder.com/money-a-banking/198/1263591/>

## International News

### Mobile payment rules coming soon in Brazil

Brazil's government is finalizing a new regulatory framework for payments through mobile phone in a move that aims to bring more poor Brazilians into the financial system and spur competition among payment providers. The action aims to lower the cost of payment operations, raise competition among merchant service providers and deepen banking penetration.

Regulation of mobile payments would open the door for the use of pre-paid accounts for payment of bills, money wire transfers between users and the adoption of technologies for mobile payments for users that have no credit or debit plastic cards. Cell phones are widely used in Brazil, from Amazon jungle outposts to the densely populated cities in the southeast. There are 259 million cell phones in a country of about 190 million people, according to government data.

(Source: [http://articles.timesofindia.indiatimes.com/2012-10-30/telecom/34816001\\_1\\_mobile-payments-central-bank-alexandre-tombini](http://articles.timesofindia.indiatimes.com/2012-10-30/telecom/34816001_1_mobile-payments-central-bank-alexandre-tombini))

### Tanzania: Bank of Tanzania, Airtel Partner on Phone Cash Transfers

The Bank of Africa in Tanzania has signed a partnership with Airtel to provide cash transfer service – Airtel Money. The service will be available for Airtel Money agents who will now be able to provide the service from any of the 17 branches of the bank country-wide. The bank will also offer financing for aggregators and has begun with Airtel Money as a pilot project. Airtel Money service will ensure that both banked and unbanked customers are able to take advantage of the Mobile Commerce solutions which is affordable, fast, secure and available for all to utilize.

(Source: <http://allafrica.com/stories/201210310163.html>)

### Zimbabwe: Call for Law to Regulate Mobile Banking

The Zimbabwean Government has been called upon to formulate legislation to govern mobile banking activities taking place in the country to prevent service providers from abusing the system. Since the adoption of multiple foreign currencies in 2009, Zimbabwe has witnessed a proliferation of mobile banking systems modeled on the one used in Kenya called M-Pesa. The three mobile operators in Zimbabwe -- Econet, Telecel and NetOne -- offer mobile banking services. In Zimbabwe, Econet Wireless' EcoCash facility has connected over one million users since its launch in September last year. Analysts contend that the launch of mobile banking services in Zimbabwe has ushered a new era in delivery of banking products to the public.

(Source: <http://allafrica.com/stories/201210300330.html>)

## **Ethiopia to Introduce Mobile Banking**

Ethiopia is one of the few remaining African countries to introduce mobile banking. With the booming economy and a population of 80 million this country could be the next gold mine for mobile banking companies. BelCash and M-Birr are mobile banking technology providers that have been in Ethiopia for the last three years to set up mobile banking and mobile money services.

Dutch company BelCash is focused on mobile banking, working in partnership with banks to provide easier access to finance through bank accounts. Ireland-based M-Birr is a mobile money service that works with micro finance institutions where no registration at a bank is needed.

The companies will face several challenges in Ethiopia. Half of the population is said to be illiterate, and the telecom coverage in the country is far from perfect. The pressure on the telecom network will increase as the number of Ethiopians owning a mobile phone increases. Ethiopia also strongly regulates its financial institutions. The National Bank of Ethiopia just finished a draft directive on how mobile banking services should be regulated as more companies have shown interest in starting mobile banking services.

(Source: <http://www.voanews.com/content/ethiopia-mobile-banking/1533154.html>)

## **MTN, Pick n Pay to launch mobile bank**

Mobile telecommunications group MTN and retailer Pick n Pay are launching a mobile money banking system, a groundbreaking offering that has the potential to be South Africa's answer to Kenya's M-Pesa. Called Mobile Money and provided by Tyme Capital, the service will allow cell phone users to set up an account from their phones and send money to any other South African with a phone. Cash deposits and withdrawals will be done through Pick n Pay's chain of 775 retail outlets.

The Mobile Money system is understood to be an advanced method of banking despite the simplicity of the mobile devices. Pick n Pay will provide the physical stores and cash money in and out of the system. Users will be charged a small fee. Customers will create bank accounts from their cell phones and use USSD, the underlying communications system that facilitates mobile banking and which is also deployed in M-Pesa. Mobile Money users will be able to send money to any other cell phone in the country — as is already possible with other banking initiatives.

(Source: <http://www.bdlive.co.za/business/technology/2012/11/22/mtn-pick-n-pay-to-launch-mobile-bank>)

## Selected Reading

### **Banking 100 Million Pakistanis – Pathways towards inclusive retail payments**

CGAP has recently issued a research report “Interoperability and the Pathways towards Inclusive Retail Payments” in Pakistan that explores how interoperability in retail payments affects the outcome of financial inclusion in Pakistan. The project involved working closely with the State Bank of Pakistan and Pakistan Telecom Authority and a diverse cross section of stakeholders from banking, telco, third party entities and government agencies.

The report presents specific proposals for the Pakistani market. It elaborates that interoperability of retail payment instruments is not an objective in its own right; rather it is a mean of achieving other desirable objectives. Interoperability can promote a range of intermediate objectives such as greater productive efficiency, convenience for customers and dynamic efficiency through promoting competition within the financial sector. However, the attainment of intermediate objectives like these must be prioritized and sequenced in order to reach broader desired outcomes. In Pakistan, two such wider outcomes are relevant: first, the goal of greater financial inclusion; second, the goal of reducing the use of cash for government payments. These two goals may be combined in the vision of an ‘inclusive cash lite’ society, in which cash is still used but is no longer pervasive.

The report propose a target of 100 million people using electronic financial services by 2020 in Pakistan, many times the current number; however, it merits consideration because, in a similar period to 2011, voice services have been delivered to more than 100 million subscribers in Pakistan. Whether in Pakistan or elsewhere, it will be a challenge for business models to achieve a target of 100 million people with electronic accounts in 8 years. For Pakistan, the investment figure is staggering: USD 5.2 billion would be needed for the country to set-up one million new units of banking infrastructure, up from the 74,000 total branches, agents, POS devices and ATMs today. USD 5.2 billion is four times the entire profit of the banking sector in Pakistan in 2011 and close to the total CAPEX of the all Pakistani MNOs reported to GSMA’s Wireless Intelligence in the five years to 2011.

While using branchless channels just might half that total investment. For instance, the industry would still need to resolve a paradox: you need a massive build out of infrastructure where people can cash-in and cash-out of their accounts but the need for that infrastructure declines, and so do revenues for agents and owners of that infrastructure, as more and more people transact electronically. The paradox suggests that there might be a time when interoperability is economically attractive to providers.

To enable adoption on a massive scale of the kind that would lead to 100 million people with electronic financial access within 8 years, and to improve the business case, markets would need to not just interconnect, but “effectively interconnect.” The report defines different levels of interconnection and how to use them in a new way to measure interoperability. For a country like Pakistan, effective interconnection means achieving both -- cost reductions passed on to customers and strong positive network effects on the demand side. Various scenarios which have either cost reduction or network effects are discussed in the report. If neither occurs, the trajectory of adoption will be modest.

Interoperability could change the trajectory of growth in Pakistan and even greater interoperability could unlock a pathway to cash-lite financial inclusion but it would have to be in defined-use cases and it would have to be handled with great care. The report provides specific advice to the Pakistani regulators (SBP & PTA) and explains how they could manage interoperability. For instance, agent-level interoperability could help rationalize that large investment that is needed, but if forced prematurely by the regulator it would depress incentives. On the other hand, by focusing in the short-term on full interconnectivity in specific payment uses case at the platform level, like Interbank Funds Transfers between bank accounts and mobile wallets, the regulator could help the industry take a step towards those network effects. Also, adoption of managed approach to interoperability in which the regulator establishes a clear framework of expectations around the timing and role of interoperability in achieving its broader goals is important for future growth.

For SBP, the managed approach would require setting up a sequence of milestones which mark the pathway towards overall desired outcomes such as large scale inclusion. As long as progress continues towards defined milestones, no intervention is needed (i.e., 'do nothing' would be justified). However, if progress towards a milestone is unduly delayed, then intervention may be triggered through a range of regulatory actions, including mandated interconnection, as happened with ATMs.

The authors suggest formation of a task force to recommend a retail payments roadmap which will achieve specified outcomes, such as the 'inclusive cash lite' vision. The taskforce should be established under terms of reference that define the desired end-policy objectives and establishes a defined timeframe. The task force should be required to engage in wider consultation including with consumers where necessary. Given the dearth of accurate information on consumer payment patterns and preferences, at least among the unbanked sector, it would be necessary to commission credible research to inform the discussion and then to monitor changes at a customer level.

Source: <http://www.cgap.org/blog/banking-100-million-pakistanis>