

BRANCHLESS BANKING NEWSLETTER

LEVERAGING TECHNOLOGIES AND PARTNERSHIPS TO PROMOTE FINANCIAL INCLUSION

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Editor's Message

We are pleased to present the 6th Issue of Branchless Banking Newsletter which covers the performance and developments during the quarter Oct-Dec 2012. According to the data, almost 35 million transactions worth Rs.151 billion have been processed during the quarter. The number of branchless banking accounts is increasing steadily and has crossed 2 million, whereas the agents' network has expanded to 41,567 by the quarter end. Another significant development during the quarter is the entry of two new players, 'Mobicash' and 'Timepey' which augurs well for financial inclusion in Pakistan. Encouragingly, few other players are preparing to enter the market in a big way and have commenced pilot operations.



With the growth in branchless banking market, State Bank of Pakistan (SBP) also continues to improve the quality of data and analysis in its publication. From this quarter, few changes have been made in the data formats reflected in the growth snapshot (table 3) of the newsletter. Accordingly, the comparative data for the current and previous quarters has been provided as per the improved formats. Standard definitions and data re-classification have also been provided.

State Bank believes in the potential of branchless banking towards scaling up digitized financial services and payment innovations. However, it is imperative that all branchless banking deployments gear up efforts for offering a wide range of banking products and services including deposits, credit, and payments to all economic and geographic segments of the society, especially those who are currently excluded.

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Director, Agricultural Credit & Microfinance Department

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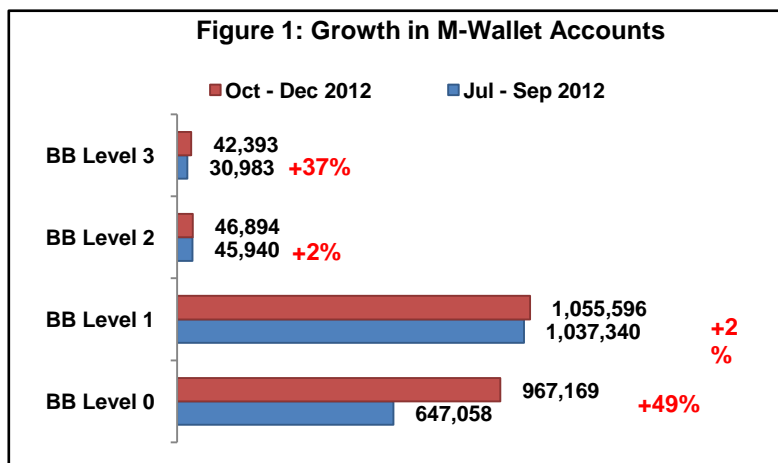
Branchless Banking Analysis

Branchless banking continues to witness growth in all key indicators. In particular, growth of 20% was registered in BB accounts, 36% in number of agents, 11% in number and 7% in value of transactions during the Quarter under review. The activity level of m-wallet is increasing significantly due to substantial growth of Level 0 accounts. A major development during the Quarter was entry of two new players, 'Mobicash' and 'Timepey' though these two new players have yet to play a major role in the overall growth of the sector.

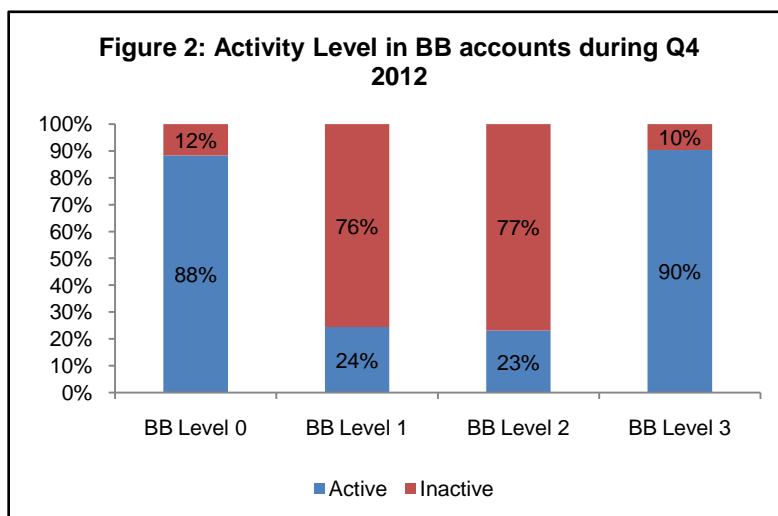
SBP is committed to providing BB providers an enabling policy environment along with actively supporting market development. SBP will continue to play policy advocacy role in branchless banking development besides offering the BB ecosystem platform for consultation with the ultimate objective of broadening and deepening financial inclusion.

Registration and activity levels in BB accounts are modest.....

After registering a growth of 20% during the quarter, the BB accounts have reached to 2.1 million by the end of Dec 2012 (Figure 1). This growth was mainly attributed to growth in level 0 accounts (49%) with major contribution from Omni (85%) followed by Easypaisa (14%). Level 3 accounts also registered significant growth of 37% during the quarter mainly due to entry of two new players (Mobicash & Timepey). A marginal growth of 2% was observed in both level 1 and 2 accounts.



The activity level of BB accounts (as measured by share of active accounts) has increased from 48% in the preceding quarter to 55% during the current quarter (Figure 2). Activity was most prevalent in Level 0 and Level 3 accounts where 88% and 90% accounts were found active respectively. High inactivity was witnessed in Level 1 and 2 accounts where approximately 76% of accounts in each category were found inactive. High level of activity in Level 0 and level 3 accounts may be attributed to the fact that 34% of Level 0 account and 26% of Level 3



accounts were opened during the last 3 months (Oct – Dec 2012).

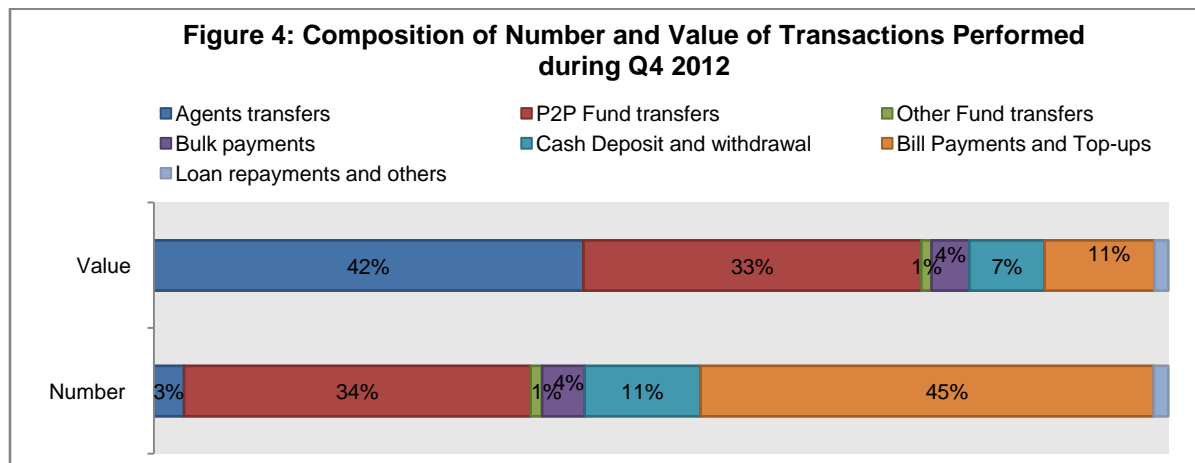
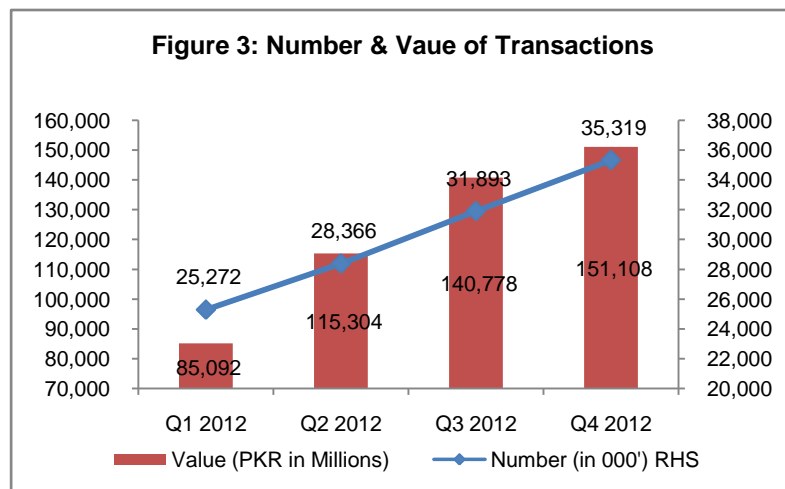
The uptake and usage in BB accounts is still low as compared to OTC transactions. Currently, only 27% of agents can open accounts whereas those who cannot open accounts are constrained due to limitation of mobile device and channels in completing KYC-related digital procedures. Some providers also charge account opening fee. Similarly, withdrawal (cash-out) charges hinder usage of accounts for daily transactions. Another constraint is non-interoperability of BB accounts across different providers.

Number of transactions is growing rapidly.....

Almost 35.3 million total number of transactions worth Rs. 151.1 billion were conducted during the quarter ending Dec 2012 (Figure 3). Number and value of transactions have grown by 11% and 7% respectively. The average size of transaction was Rs 4,278, while the average number of transaction per day increased to 392,433 from 354,367 during the previous quarter.

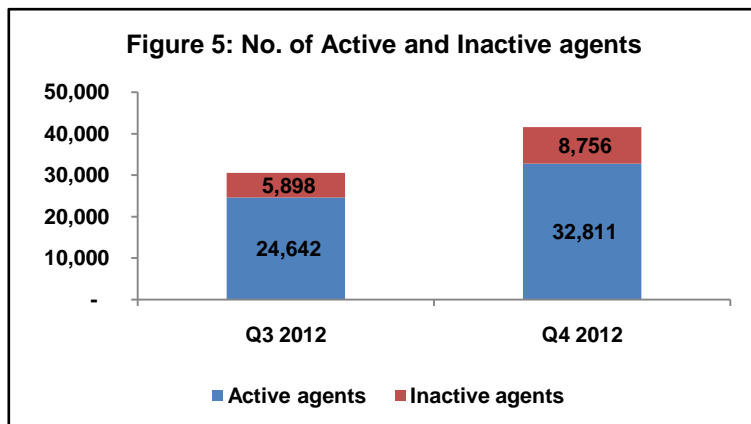
Fund transfers by agents (42%) dominated the value of transactions which were largely

focused at liquidity management purpose. Person to person (P2P) fund transfers, the second largest category in fund transfers, constituted 33% share in total value of transactions. In terms of number of transactions, bill payments and top-ups (45%) ranked top, followed by P2P fund transfers (34%) (Figure 4).

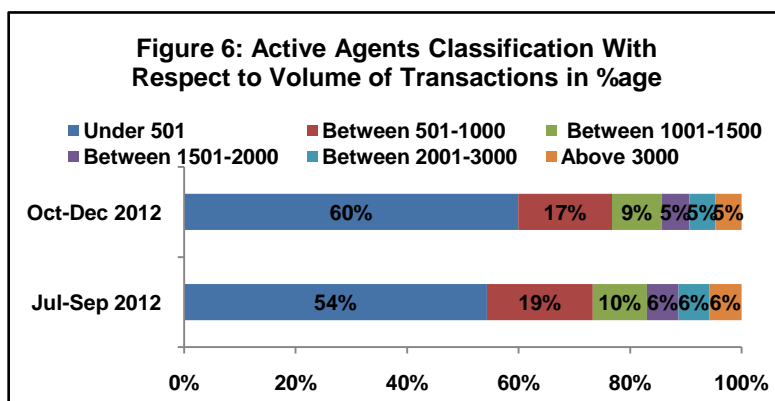


Number of agents increases significantly due to new entrants...

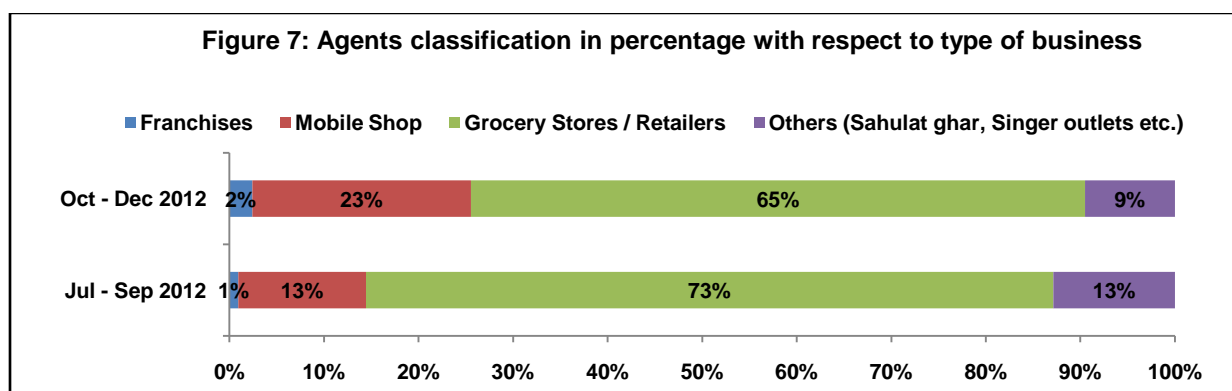
Number of agents has registered a positive growth of 36% during the quarter and has now reached at 41,567 (This number does not take into account “shared” agents who are servicing more than one provider). The growth in number of agents was contributed largely by two new players. A slight increase was seen in the number of inactive agents during the quarter (figure 5). This inactivity was resulted due to the fact that two new players, Mobicash and Timepey developed their agents in last month of the quarter. On average an active agent has performed 832 transactions during the current quarter, which is 19% less than the previous quarter (1031 transactions during Q3).



The share of agents who performed above 3000 transactions during the current quarter was 5%. A key motivation for most of these high performing agents was their involvement in the distribution of welfare funds of the Government during the quarter. During the quarter, an amount of Rs 5 billion was disbursed under G2P through 1.4 million transactions using BB channels. The percentage of active agent performing less than 501 transactions during a quarter has increased to 60% largely due to agents established by new players in December (figure 6). There was no significant change in the other categories of agent activity.



Grocery stores/retailers represent the largest share of agent business, though the share has decreased during the quarter from 73% to 65% (figure 7). The share of mobile shops has increased from 13% to 23%. Though mobile franchises constitute the smallest category, they provide full range of services including account opening and liquidity management.



Branchless Banking Snapshot

Table 1: Key indicators

Indicators	Q3 2012	Q4 2012	Quarterly Growth
Number of Agents	30,540	41,567	36%
Number of Accounts	1,761,321	2,112,052	20%
Deposits as of date (Rs. in millions)	784	1,055	35%
Number of transactions during the quarter (No. in '000')	31,893	35,319	11%
Value of transactions during the quarter (Rs. in millions)	140,778	151,108	7%
Average Size of Transaction (in Rs.)	4,405	4,279	-3%
Average number of transaction per day	354,333	392,378	11%

Table 2: Summary of Transactions

Indicators	Q3 2012	Q4 2012	Quarterly Growth
Number of Transaction			
Fund transfers by Agents for liquidity Management	945,346	1,064,734	13%
Fund transfers by customers (P2P, A2A, & A2P)	12,363,463	12,465,192	1%
Bulk Payments (G2P and others)	756,161	1,478,574	96%
Cash deposit / withdrawals	3,136,536	4,030,895	29%
Bill payments & top-ups	14,264,035	15,772,670	11%
Loan repayments and others	427,370	506,838	19%
Value of Transaction (Rs. in millions)			
Fund Transfers by Agents for liquidity Purpose	59,723	64,016	7%
Fund transfers by customers (P2P, A2A, & A2P)	48,287	51,862	7%
Bulk Payments (G2P and others)	4,436	5,615	27%
Cash deposit / withdrawals	9,058	11,203	24%
Bill payments & top-ups	17,259	16,367	-5%
Loan repayments and others	2,016	2,046	1%

Table 3: Volume & Value of transactions

Transaction Type	Q3 2012		Q4 2012	
	Number	Value (Rs. in millions)	Number	Value (Rs. in millions)
Fund Transfers				
Account to account transfers (Agents)				
<i>L3 account to L3 accounts transfers</i>	623,589	20,723	686,924	23,284
<i>L3 account to agents banking accounts transfers</i>	59,295	16,344	78,944	17,507
<i>Agents banking accounts to L3 accounts transfers</i>	262,462	22,655	298,866	23,225
Account to account transfers (customers)				
<i>MW to MW transfers</i>	133,533	99	20,862	25
<i>MW to customers banking accounts transfers</i>	7,434	80	6,591	75
<i>Customers banking accounts to MW transfers</i>	5,954	29	6,261	31
MW to person transfer	413,627	1,482	368,298	1,425
Person to person transfer				
<i>Sending</i>	5,699,017	22,569	5,851,328	24,449
<i>Receiving</i>	6,103,898	24,027	6,211,852	25,856
Bulk Payments				
G2P payments				
<i>G2P through MW</i>	60,123	84	62,292	195
<i>G2P through card</i>	661,209	4,066	1,361,507	5,078
EOBI pensioners	29,731	214	48,731	273
Salary payments	5,098	72	3,970	55
Other bulk payments	-	-	2,074	14
Cash deposit & withdrawal				
Cash Deposited in MW	2,272,914	4,546	2,791,716	5,597
Cash Withdraw from MW	508,713	932	622,542	2,617
Cash withdraw through card (G2P)	354,909	3,579	616,637	2,989
Bill Payments & Top-Ups				
Utility Bills Payments	12,136,388	17,110	13,181,602	16,110
Internet Bill Payments	46,038	48	103,673	134
Mobile Top-ups	2,081,609	101	2,487,395	123
Loan				
Disbursement	-	-	-	-
Repayment	312,761	641	396,572	912
Others				
Donations	6,864	1.02	2,230	0.22
Merchant payments	48,031	254	34,287	277
PIA ticketing	306	3.76	190	2.45
International home remittance	30,246	803	25,732	697
Account opening transactions	20,939	8.70	43,110	18
Cash collection/payment services	8,223	305	4,717	140
Total	31,892,911	140,778	35,318,903	151,108

The standards definitions are given in Appendix-1

Branchless Banking Models

S.No	Bank Name	BB Model	Name of Super Agent (only for 1-1 model)	Technology Platform	Status
1	Tameer Microfinance Bank	Easypaisa (One to one model)	Telenor Pakistan	Fundamo	Live (2009)
2	United Bank Limited	Omni (One to many model)	--	Developed In-house	Live (2010)
3	Waseela Microfinance Bank	MobiCash (One to one model)	Mobilink GSM	Utiba	Live (Q4 2012)
4	Askari Bank Limited	Timepey (One to one model)	Zong	i8 Microbank	Live (Q4 2012)
5	Habib Bank Limited	HBL Express (One to many model)	--	Sybase 365	Live (April 2013)
6	MCB Bank Limited	MCB Lite (One to many model)	--	Fundamo	In pilot
7	U Microfinance Bank Limited	(One to One model)	Ufone GSM	Sybase 365	In pilot
8	Bank Alfalah Limited	(One to one model)	Warid Telecom	Monet	In pilot
9	Meezan Bank	(One to many model)	--	Fundamo	In pilot
10	Dubai Islamic Bank	(One to many model)	--	Developed In-house	In pilot

Branchless Banking Events

SBP-CGAP Workshop on Future of Branchless Banking, Payment Systems and Financial Inclusion, held on 19th December, 2012

A workshop on “Future of Branchless Banking, Payment Systems and Financial Inclusion” was held on 19th December, 2012 at Avari Tower Karachi with the coordination of State Bank of Pakistan (SBP), Pakistan Telecommunication Authority (PTA) and Consultative Group to Assist the Poor (CGAP). A large number of participants from banks, microfinance banks and institutions, mobile network operators (MNOs), and technology firms attended the workshop.



Speaking on the occasion, Mr. Yaseen Anwar, Governor, State Bank of Pakistan stressed upon banks and mobile network operators (MNOs) to promote branchless banking for the benefit of the unbanked and underserved people of the country. He said that if the banks and mobile network operators want to succeed, they have to assign a strategic priority to branchless banking. The Governor said that SBP has taken several policy and developmental initiatives to promote financial inclusion in the country. Today, Pakistan's regulatory environment for microfinance and branchless banking is considered one of the best globally.

He further highlighted that due to SBP's regulations on branchless banking, four mobile banking deployments have emerged during short span of time which are not only advancing new frontiers of financial inclusion but also pushing the expansion in the payment ecosystem of the country. He pointed out that the brick and mortar retail network of the entire financial industry of Pakistan stands at around 11,000 outlets after 65 years while the branchless banking retail agents' network has grown beyond 32,000 agents in a short span of 3 years.

The Governor observed that a robust payment infrastructure would be critical for the long-term development of mobile phone banking. 'Banks and mobile network operators (MNOs) have to develop partnerships to expand the agent network, leverage communication bearer channels, develop client acquisition strategies, and build a robust risk management framework.

The Governor said that 90% of total bank branches were currently processing real time online banking services across the country. 'One million internet banking users, 1.8 million mobile phone banking users, and more than 10 million call center users are enjoying virtual banking'. He emphasized upon the mobile network operators to come up with creative marketing strategies, and financial literacy schemes that provide basic learning and educative experience to their customers.

Stressing the urgent need for modernizing and expanding the payment system infrastructure segments, The Governor disclosed that a proposal is under consideration at SBP for the preparation of Payment Systems Strategic Road Map for the next Five Years.

A presentation on “Banking a 100 Million Pakistanis” was given by Mr. Kabir Kumar from CGAP. Different business models were explained in the presentation that could be leveraged to achieve a significant milestone of advancing financial access and suggested a target of 100 million banked clients to cater under electronic financial services by 2020. It was briefed in the presentation that interoperability may reduce upfront costs for providers by allowing access to infrastructure. Interoperability may enable new specialized business models to emerge, or reduce the barriers to entry for new providers, increasing competition, in ways which will cause providers to reduce fees preemptively.

6th International Conference on Mobile Commerce, held on 14th March, 2013

6th International Conference on Mobile Commerce in Pakistan was held on March 14, 2013 in Karachi Pakistan. The conference was jointly organized by State Bank of Pakistan, Pakistan Telecommunication Authority and TOTAL Communications. Mr. Yaseen Anwar, Governor, State Bank of Pakistan was the chief guest at the occasion.

During his speech the Governor said that developments in branchless banking across the country show the potential of mobile phone banking as a game-changer in banking, m-commerce and financial inclusion.

He highlighted that the central policy objectives of SBP are to ensure safety, soundness and efficiency of the banking system, and to protect the interest of consumers, adding that since branchless banking is becoming a vital component of the national payment grid, it is prudent for all stakeholders to ensure that appropriate measures are in place to mitigate inherent risks associated with it like access by un-authorized persons/ criminals such as hackers, money launderers, terrorist financiers etc.

The Governor said that branchless banking has also proved to be an effective instrument in channelizing the Government to Persons (G2P) payments in trying times like serving Internally Displaced Persons (IDPs), and devastating floods for the last two years. The Benazir Income Support Program (BISP) beneficiaries are also being served effectively through the same mechanism, adding that in the coming days, this channel is expected to continue playing an important role towards the promotion of financial inclusion and the management of Government to Person (G2P) Programs like Salaries Disbursements, Pensions, BISP, Watan Cards, Pakistan Cards and tax collections services, etc. The existing branchless banking deployments can cater to the needs of over 10 million potential beneficiaries of G2P payments in Pakistan.

While acknowledging that branchless banking has gained critical mass in a short period of time, the Governor was of the view that the market has to start shifting transactions from first generational



services (Person-to-person/Bills payments) to second generational services (account-to-account and inter-bank transfer). This will be a part of an inevitable evolution which will ensure the long-term sustainable development of the sector, encourage micro savings and help in meeting the demands for inclusive financial services of the target market.

Dawn-1Link ‘Branchless Banking – Transforming Payments 2013’ Conference and Exhibition, held on 20th February, 2013

Branchless Banking – Transforming Payments 2013’ Conference was organized by Dawn in collaboration with 1LINK. Mr. Kazi Abdul Mukhtadir, Deputy Governor, State Bank of Pakistan was the chief guest on the occasion. The conference was attended by over 300 leading international and local experts, participants primarily from the banking sector, mobile operators, technology companies, agent networks, regulators, government and donors.

The Deputy Governor delivered a key note address at the conference. He said that the role of branchless banking in transforming payment services has been increasing and financial Inclusion is the driving principle behind the integration of branchless banking and payment system. Moreover, financial exclusion is one of the biggest challenges especially in developing countries when viewed in context of equitable economic growth and poverty alleviation. Pakistan has a population of almost 180 but there are only 32 million depositors and around 5.7 million borrowers. The incidence of financial exclusion is estimated around 86-88% of the total adult population who remain unattended by formal financial institutions. Viewing these challenges, State Bank of Pakistan has set for itself an overarching goal to broaden the access to formal financial services for all, enabling the masses especially the marginalized segment of population to mobilize resources for income generation and smoothen their income streams. Pakistan has become one of the few countries in the developing world that initiated work in this area and implemented projects like RTGS, and automated clearing of cheques through NIFT (National Institutional Facilitation Technologies).

He further highlighted that broader goal is to provide inclusive financial services to poor and low income group and branchless banking is the way forward for achieving this goal of inclusiveness, convenience, ubiquity, and efficiency. With the increased experimentation in branchless banking models and expansion of agents’ network, government, beneficiaries and service providers are becoming comfortable with technology based payment options, which are quick, convenient, safe, and affordable and also reduce the risk of theft, error and other forms of cash leakages.

During the conference the topics under discussion included long-term strategies, consumer awareness, latest technologies, new products and services, alternate delivery channels, regulatory policies and improving synergies between mobile operators, banks and technical service providers,



thereby providing banking and telecom professionals with invaluable insights and innovative solutions.

The Branchless Banking: Transforming Payments Exhibition was also held in conjunction with the Conference. The exhibition showcased the latest technological services and products that can be utilized to improve the efficiency of existing payment systems and distribution networks.

13th Microfinance Consultative Group (MFCG) meeting discusses avenues for developing BB ecosystem

Mr. Muhammad Ashraf Khan, Executive Director, BPRG&DFG, has reiterated that SBP is expanding avenues for developing BB ecosystem. Presiding over the 13th meeting of Microfinance Consultative Group (MFCG) held at SBP on 31st January, 2013, Mr. Ashraf Khan mentioned that SBP is undertaking a BB diagnostic assessment with an objective of strengthening its regulatory and supervisory framework. He also stressed on the need for developing annual implementation plan for MFBs/MFIs to broaden the access to inclusive financial services.

Speaking at the occasion, Dr. Saeed mentioned that SBP's efforts are not only focused on policy and regulatory framework for microfinance, but also, on strengthening the necessary infrastructure and supporting mechanisms.



USAID-Afghanistan Delegation Visits Pakistan to Study Mobile Banking

A delegation of USAID-Afghanistan visited State Bank of Pakistan to learn from branchless banking experiences in Pakistan. The delegates held meeting with the senior officials of SBP led by Dr. Saeed Ahmed, Director-AC&MFD. During the visit, the delegates learned about various mobile money and branchless banking implementation in Pakistan such as G2P, B2B, merchant payments, and bill payments. The delegation was keen to discover the different challenges and opportunities in bank-led model of branchless banking implementation.

The delegation also met with mobile money user groups and associations to build closer ties and cooperation between Afghanistan and Pakistan partner institutions that are implementing branchless banking services.

Local News

Bank Alfalah, Warid launch mobile banking solution

A large commercial bank of Pakistan, Bank Alfalah, has joined hands with Warid Telecom for their upcoming branchless mobile banking services in Pakistan. The technological support for this collaboration is being provided by Monet and the pilot testing launch is currently underway. This open and collaborative ecosystem will assist in creating a bigger and less costly enabling environment for the issuers, acquirers and service providers. Bank Alfalah currently operates through a network of 471 branches across 163 cities in Pakistan.

(Source: <http://tribune.com.pk/story/520367/bank-alfalah-warid-launch-mobile-banking-solution/>)

SBP directs banks to accept SNIC

Through a recent BPRD Circular No. 03 of March 12, 2013, State Bank of Pakistan (SBP) has instructed all banks/Development Finance Institutions (DFIs) that Smart National Identity Card (SNIC) issued by National Database and Registration Authority (NADRA) may also be accepted in lieu of Computerized National Identity Card (CNIC) for opening of accounts/banking transactions and wherever required in terms of Anti Money Laundering and Combating the Financing of Terrorism (AML/CFT) Regulations and Branchless Banking Regulations.

(Source: http://www.dailytimes.com.pk/default.asp?page=2013%5C03%5C13%5Cstory_13-3-2013_pg10_1)

SBP has allowed U Microfinance Bank Limited (UMBL) to Launch Pilot Branchless Banking Deployment

SBP has allowed UMBL to launch their pilot branchless banking deployments. UMFB will roll out its pilot shortly. Early this year, State Bank of Pakistan (SBP) issued a nationwide microfinance banking license to U Microfinance Bank Limited (formerly Rozgar Microfinance Bank Limited) to operate at national level after Pakistan Telecommunication Company Limited (PTCL) was allowed by SBP to acquire 100% shareholding of Rozgar Microfinance Bank Limited with the condition that PTCL would enhance the status of this microfinance bank into a nationwide MFB within one year. UMBL intends to offer branchless banking services, such as fund transfers, bill payments etc., to its customers.

International News

Number of mobile banking users to reach one billion by 2017

The widespread use of mobile devices is rapidly changing the face of the banking industry. But while financial institutions are well aware of the potential benefits, it is actually consumers who are driving the mobile banking revolution, according to FICO. The US-based credit scoring specialist expects the number of people using mobile banking services to reach one billion by 2017. However, FICO notes that banks have to step up their efforts in order to provide customers with what they expect from mobile banking.

According to the mobile banking revolution infographic prepared by FICO, 20.4% of Britons now use their smartphones to access banking services compared to 9.7% three years ago. In addition, 67% of UK banks believe that all of their customers will be using some form of mobile banking by 2017. FICO's data also shows that 58% of people in the US and the UK want to use mobile banking. However, communication between banks and their mobile customers is not glitch-free, as 45% of people in both countries report experiencing problems in that respect. According to 62%, the major communication issues are related to technology.

When it comes to wishlists, 52% of Britons would like to see more variety in online services, 32% want a greater choice of apps and 31% express a desire for more personalised services. Mobile banking customers across the Atlantic are keen on getting services tailored to their shopping habits and location, with 48% expressing such a wish. Better transaction and connection security is on the wishlist of 46% of Americans and 38% would like to have faster connection speeds.

(Source: <http://www.misco.co.uk/blog/news/00773/number-of-mobile-banking-users-to-reach-one-billion-by-20173>)

Mobile Payments, Debit Usage on the Rise

The World Payments Report 2012 examines the latest developments in the global payments landscape, including payments volume trends, payment instruments and key regulatory initiatives. The continued rising popularity of debit cards as well as mobile and e-payments were among the major themes of the 2012 World Payments Report, conducted jointly by Capgemini, Royal Bank of Scotland and not-for-profit organization Efma.

As more consumers embrace electronic, mobile and debit card payments, industry innovation will continue to focus heavily on these payment methods. According to the report, there were an estimated 28.3 billion electronic and mobile payment transactions globally in 2011 and in 2010 more than one in three non-cash payments globally was made using a debit card, up 15.2 percent.

However, only 2.1 percent of all mobile users reported making m-payments, the research found, meaning the potential for additional growth is still large, with mobile payments volume set to reach 17 billion and e-payments 31.4 billion globally by 2013. In addition to its exploding growth in the consumer market, there is also an increasing appetite for mobile payments in the corporate space. Security concerns, once considered a hindrance to widespread mobile payment adoption, have also lessened in recent years.

(Source: <http://www.banktech.com/payments-cards/mobile-payments-debit-usage-on-the-rise/240008963>)

Overwhelming Majority of Mobile Users Bank on Device

A recent analysis conducted by Prosper Insights & Analytics reveals that the majority of mobile users conduct at least one financial activity on their smartphone or tablet, with banking being the most popular. However, security concerns still exist, causing some mobile users to seek out the safest apps and payment methods.

An analysis of data from Prosper Mobile Insights reveals that more than 3 in 4 mobile users conduct banking activities using a smartphone or tablet, and more than half say they engage in shopping behaviors via mobile. Two in five also say they pay bills, create shopping lists and “clip” coupons on their device. Women appear more likely than men to engage in couponing and list-creating activities on smartphones and tablets. Also, top bills to pay via mobile include wireless service (68.2%), credit card (66.9%) and Internet service (38.8%).

It is essential that mobile banking apps meet consumer expectations as they dominate a list of apps used most often for financial activities. Besides an excellent mobile experience, those who conduct financial matters via a smartphone or tablet also want to be sure their information is safe. Over half of mobile users (59.5%) say they are still concerned about privacy issues. 21.3% say they are not concerned about such security threats, and 19.2% are on the fence.

Of the 23.2% who say they’ve never made a mobile purchase, 36.5% say they would feel most comfortable making a payment using PayPal, one of the top financial apps. Another 24.7% say a credit card would be the safest choice. Credit cards and PayPal also rank among the top payment methods used most often by those who have already made mobile purchases.

(Source: <http://www.prweb.com/releases/ProsperJan13/MobileBanking/prweb10428270.htm>)

Electronic payments boosted Philippine’s GDP

Credit and debit card purchases helped stimulate the country’s economic growth, according to global payments technology firm Visa, Inc., but pointed out that many Filipinos still do not have access to formal financial services thus blunting the economic impact of such transactions. Credit and debit card use contributed 0.27% or \$2 billion to Philippines gross domestic product (GDP) from 2008 to 2012, according to a Moody’s Analytics study for Visa. The growth in the use of electronic payment products, such as debit and credit cards, added \$2 billion to the GDP of the Philippines. The study, which was conducted from 2008 to 2012, covered 56 countries, including the Philippines, which represented 93% of global GDP. The study estimated that electronic payments contributed some \$983 billion to the GDP of the 56 countries over the five-year period that was covered. Real global GDP grew by an average 1.8% per year from 2008 to 2012; without card use, that would have been just 1.6% Moody’s Analytics explained that card use raised consumption as cards provide greater convenience versus cash in buying and selling.

With the growing card usage contributing 0.27% or \$2 billion to the Philippines’ GDP, there is no denying the benefits of electronic payments here or the importance of maintaining an open marketplace to encourage competition and innovation within the industry. Eighty percent of transactions in the Philippines in 2012, however, were settled in cash, indicating the low penetration of credit and debit cards. The fact that around 82% of Filipinos do not have accounts in formal financial institutions may provide the explanation for this.

(Source: <http://www.bworldonline.com/content.php?section=Finance&title=Electronic-payments-boosted-Philippine-GDP&id=66879>)

Special Section

MCB Lite – An alternative approach towards digitizing the economy

MCB Bank Ltd. was the first bank in Pakistan to launch a mobile financial service 'MCB Mobile' in July 2009. The service later won the "Best Bank led Mobile Money Project" award in MMT 2010 and was the finalist in the Banker's award 2010 and also got nominated for the best "mobile money service" at the Mobile world Congress held by the GSMA in Barcelona, Spain in 2010.

The service today has 400,000 registered customers who have conducted more than 10 million financial and non-financial transactions worth more than Rs.20 Billion. MCB launched the service with a mission to digitize the behavior of its existing customers including its staff. Consumer behavior change is a huge undertaking and to ensure the initial success, MCB took certain measures. These included demonetizing the payment events (no per transaction charges), and using an internet based telecom agnostic model. This service allowed the existing customers and staff to check balance and mini-statement, make utility and mobile bill payments, top-up mobile balance, donate and even buy insurance.

MCB's vision remains unaltered from the time of the launch of this service. The decision to not price the payment events has helped change the behavior of the internal customers who

adopted the service, the reason that the service has been able to clock transaction worth billions. The choice of internet as the user access channel seemed risky at the time but today with the fast growing mobile internet in Pakistan has proven the choice to be futuristic as it allows the service to remain telco agnostic.

MCB Mobile has really been a stepping stone for the bank to start the race quickly by first focusing on "mobilizing or digitizing" the large bank from the "inside" and 'MCB Lite' is now an effort to grow the bank and the market from the "outside" by acquiring new-to-bank customers. The strategic focus is centered on customer acquisition rather than transaction acquisition, which is the case with over the counter transaction. MCB continues to innovate in the mobile payment space with the insights of MCB mobile and are in pilot of their branchless banking deployment "MCB Lite". The product in its pilot has more than 7,000 customers who have conducted over 17,000 transactions worth approximately Rs 64 million.



MCB Lite builds upon the success of the earlier products and is focused towards the financial



inclusion and as a consequence, digitizes and documents the economy. It includes a mobile wallet linked to a VISA card which is instantly issued to the customer, giving the customer the complete convenience of financial services and enabling the customer to save time and money through making payments digitally. This is the result of multiple process, product and technology innovations coming together.

In continuation of the “building upon success” approach, MCB is focused to leverage their existing strengths including the branch, ATM and POS

network to service the customers of MCB Lite and also setup an unconventional agent network strategy which is designed to focus on quality over quantity. MCB believes that attaining the end goal, financial inclusion will be reached using customer accounts and by training the customer to transact from his mobile wallet account instead of focusing on the OTC (over the counter) transactions.

Selected Reading

An Overview of the G2P Payments Sector in Pakistan

In its recent report “An Overview of the G2P Payments Sector in Pakistan”, CGAP has declared Pakistan as a laboratory for G2P payments. The report provides an overview of the government-to-person (G2P) payments sector in Pakistan, highlighting the progression of payment mechanisms and the ways in which the growing branchless banking industry has facilitated this. While some level of detail on schemes, providers and monetary flows are included, the broader aim is to provide an overview of the digitization of the government flows and to explain the role of both public and private actors. The report looks at social cash transfers, salaries and pension schemes administered by central government agencies, and also an additional provincial scheme managed by the Government of Punjab. CGAP estimates that if things keep moving forward as they have in recent years, within 5 years, over 75% of government flows could be digitized.

The Benazir Income Support Program (BISP) represents the largest social cash transfer program in the country. When the program started in 2008, payments were delivered in person and in cash by the Pakistan Post. In early 2010, BISP experimented with a couple new payment instruments: first with smart cards (Benazir Smart Card) and later with mobile phones. About a year ago in February 2012, BISP transitioned to a new payment mechanism using magstripe debit cards, coined the Benazir Debit Card. Benazir Debt Card are issued by six banks (five commercial banks and one microfinance bank) and while the nature of the account linked to the debit card varies by bank, they can all be used widely throughout the country’s financial system. According to the data, annual payments under these schemes amount to \$9.3 billion, of which salaries make up \$6.3 billion (68%), pension amount to approximately \$1.9 billion (21%), followed by social cash transfer programs at \$1.1 billion (11%).

Apart from the schemes mentioned above, many other interesting things are also happening in the G2P laboratory. The Employees’ Old-Age Benefits Institution, the social pension provider for private sector retirees, began providing the option to cash-out payments using Easypaisa at 400 agent locations since last year. The Government of Punjab will soon start making payments directly into the bank accounts of pensioners of Lahore District. Most of these pensioners do not have bank accounts.

The report has credited the progress to several opportunities, especially to a strong enabling environment put in place by the State Bank of Pakistan. BISP has created a sensible operating environment for the participating banks by paying them a 3% fee under a 2-year contract. This was arrived at through a consultative process with the banks and reflects global standards of such fees. The banks also clearly see G2P as a key opportunity to grow their branchless banking business.

The report also list down some challenges in digitizing government flows. The business case for banks becomes a challenge when they start to think about expanding from simply being the payment service provider to being the banker of these beneficiaries. This is tied to the lack of understanding of G2P beneficiaries as potential banking customers.

Encouragingly, there are plenty of opportunities for market players that will facilitate further development of G2P payments in future. A strong enabling environment for the proliferation of financially-inclusive G2P payments has been created by various government stakeholders and

international donors. The State Bank of Pakistan has gradually reduced the KYC requirements for low-balance accounts, facilitating account openings for new beneficiaries. It has also waived the NADRA KYC verification fee for beneficiaries transitioning from a limited mandate account to a branchless banking Level 0 account.

Furthermore, SBP, in partnership with the Pakistan Telecommunications Authority, is following a managed approach to interoperability to avoid the risks that “intervening now” or “doing nothing until problems arise” might bring. This in turn has created confidence within banks and mobile network operators who continue to invest in the growth of the branchless banking sector. Also, there is widespread interest and support to understand beneficiaries’ financial lives and needs. Among the donors, the World Bank is completing a beneficiary assessment of the Watan cards and BISP payments that should provide initial insight into how these payment mechanisms are perceived and accepted by beneficiaries themselves. The World Bank is also launching a training module on financial literacy for social transfer recipients administered by the Pakistan Microfinance Network.

(Source: <http://www.cgap.org/publications/overview-g2p-payments-sector-pakistan>)

Appendix 1: Definitions of Terminologies

BB Terminology	Definition
M-wallets	All level 0, level 1, and level 2 accounts
BB Accounts	M-wallets plus level 3 accounts (Mainly, Level 3 represents agents' accounts).
Banking account	Banking account means a regular bank account maintained in bank branch by agents/customers
Active m-wallet account	An m-wallet account will be considered as an active account if: <ul style="list-style-type: none"> - Performed at least 1 transaction during the last 180 days. - Opened during the last 180 days. - Account has not been suspended /closed/ terminated for any reason. - Fully compliant with KYC requirements as per BB Regulations.
Inactive M-wallet account	An m-wallet account which does not qualify the criteria for active accounts will fall in inactive account category. The applications in process of account opening are not counted in inactive accounts.
Active Agent	An agent will be considered as an active agent if: <ul style="list-style-type: none"> - Performed at least 1 transaction during the last 90 days. - Opened during the last 90 days. - Agent has not been suspended /closed/ terminated for any reason. - Fully compliant with KYC as per BB Regulations.
Inactive agent	An agent who does not qualify the criteria for active agents will fall in inactive agents' category. The new take-on agent applications in process are not counted in inactive agents.
Average Size of Transaction (in Rs.)	Value of transactions divided by number of transactions
Average number of transaction per day	Number of transactions during the quarter divided by 90 days
Account to account transfer (MW holders)	Total number of transactions and amount transferred by MW holders. It includes MW to MW transfers, MW to banking account transfers, and banking account to MW transfers.
Account to account transfer (by Agents)	Total to number of transactions and amount transferred by agents for liquidity management purpose. (It includes agent account to agent account transfers, agent account to banking account transfers, banking account to agent account transfers)
MW to person transfer	Number of transactions and amount transfers from MW to person (transfer on customer's computerized national identity card (CNIC)).
Person to person transfer	Number of transactions and amount of money transacted through OTC (transactions from one CNIC to another CNIC).
Bulk Payments	All bulk payments done through BB channel which include wages, pensions, G2P social transfers and welfare payments
G2P payments	Government to person payments which include social transfers and welfare payments
EOBI pensioners	All payments from Employees' Old-age Benefit Institution (EOBI) to pensioners

Salary payments	Salary payments from institutions to its employees
Cash Deposited in a MW account	Cash deposited into MW accounts
Cash Withdrawals from a MW account	Cash withdrawals from MW accounts
Cash withdrawals through card (G2P only)	Cash-out of G2P payment received by Watan /BISP or any other G2P related card holders using BB channel
Other cash collection services	Any other cash collection service such as school fee collection.
Utility Bills Payments	Gas, water, electricity, telephone and any other public utility payment
Loan Disbursement	Loan disbursements through BB channel
Loan Repayment	Loan repayments through BB channel
Donations	Donations collected through BB channel
Merchant payments	Retail payments to authorized merchants to purchase goods/services
Account opening transactions	Limited transactions (as permissible under BB regulations) in m-wallet accounts during account opening / activation process.