

Quarterly

Issue 10

# Branchless Banking Newsletter

Oct - Dec 2013

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**LEVERAGING TECHNOLOGIES AND PARTNERSHIPS TO PROMOTE  
FINANCIAL INCLUSION**



State Bank of Pakistan  
Development Finance Group

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## Branchless Banking Analysis

### Branchless Banking Analysis

During the 4<sup>th</sup> quarter 2013 (Oct-Dec), 54.1 million BB transactions worth Rs. 234 billion were carried out across the country. On an annual basis, 192 million BB transactions worth Rs. 802 billion were recorded in the year 2013, reflecting 59% more volume and 63% higher value in comparison to the year 2012. Further, the number of BB accounts has now increased to 3.5 million, showing an increase of 65% over the year. However, these m-wallets represent only 2.5% of total mobile subscribers.

Few m-wallets related developments have taken place during the year, that are worth mentioning. For instance, the influx of new players is prompting the market to offer improved value in customers' accounts. Similarly, industry has started exploring the use of NADRA's bio-metric technology for customer verification before account registration. This technology has potential to radically improve the customers' registration process. Further, m-wallet transactions saw a gradual rise as its share rose from 12% to 14% during the year mainly owed to increased customer usage for utility bill payments, loan repayments, and mobile top ups.

The Government to Person (G2P) accounts continue to catalyze BB for financial inclusion of the masses. During the quarter, Rs 7.9 billion was disbursed via BB channels for G2P beneficiaries, slightly higher than Rs 7.7 billion in the previous quarter. Branchless banking G2P beneficiaries have increased to almost 4.5 million by December 2013 out of which card based beneficiaries have reached 3.3 million and account based beneficiaries have reached to 1.1 million in number. Only two players, Omni and Easy Paisa currently have a BB G2P account portfolio with a market share of 78% and 22% respectively, and their share has remained relatively unchanged over the year.

With eight players currently operating in the market (**Chart 1**), the network of agents has grown by over 200% over the year, reaching 125,027 in number as of end December 2013. This growth has however been owed largely to agent sharing trend in the market. It is estimated that the actual access points is almost half of the reported number of total agents.

Going forward, m-wallet's adoption can gradually improve if industry overcomes challenges relating to registration and usage of m-wallets. New technologies such as bio-metric verification hold many promises. Moreover, banks have to add value proposition in customers' accounts which promotes basic transaction flows through mobile account. Market should also explore opportunities in key demographic segments such as youth and females to increase revenue streams for the BB providers and contribute to financial inclusion.

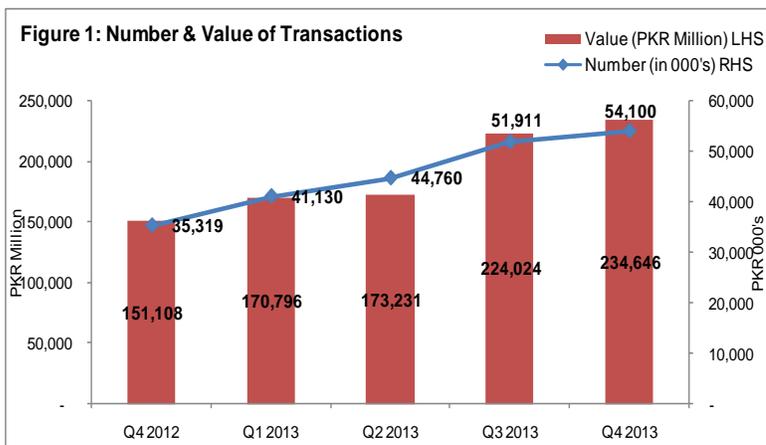
**Chart 1-Timeline and modus operandi of BB service providers:**

Easy Paisa (Oct 2009)	Omni (Apr 2010)	Timepey (Nov 2012)	Mobicash (Dec 2012)	HBL Express (Apr 2013)	U-Paisa (Jul 2013)	MCB Lite (Dec 2013)	Mobile Paisa (Dec 2013)
One to One Model between Tameer Microfinance Bank and Telenor Pakistan (MNO)	Telco agnostic one-to-many model, where UBL has developed its own network of agents that serves customers of any MNO	One to One Bank led model between Askari Bank and Zong (MNO)	One to one Telco led model between MNO Mobilink and Waseela Microfinance which is an MFB owned by Mobilink	Telco agnostic, one to many model where HBL has formed strategic agent alliances with Warid and NADRA	One to one model between U-Fone, and U-Microfinance Bank Limited which was formerly known as Rozgar MFB Ltd.	Telco Agnostic one to many Model initiated by MCB	One to one model between Warid Telecom and Bank Alfalah Limited.

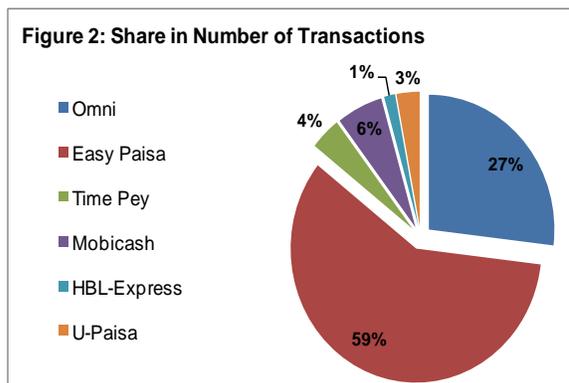
## Number and Value of Transactions

Branchless banking providers collectively transacted 54.1 million transactions valuing Rs. 234.6 billion during the quarter, as compared to 51.9 million transactions valuing Rs. 224.0 billion during the last quarter (**Figure 1**). On average, 601,113 transactions have been performed per day by agents, with an average transaction size of Rs 4,337.

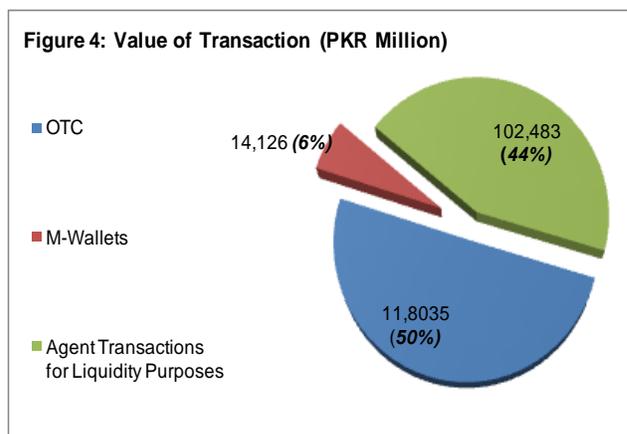
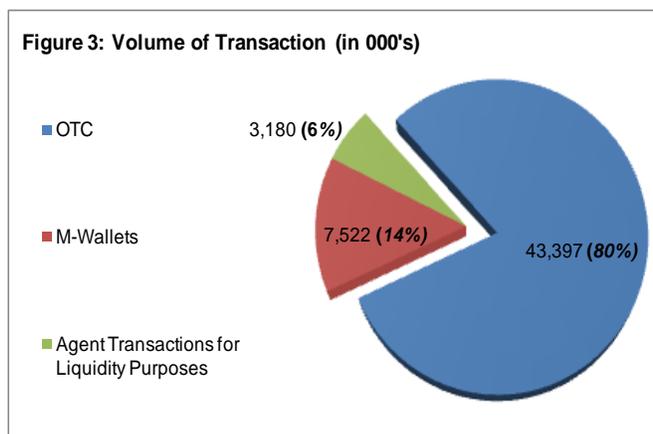
Major contribution in number of BB transactions came from Easy paisa (59% as of Dec '13, compared to 61.1% in Sept '13) and Omni (27%, unchanged from previous quarter), whereas, combined contribution of new players amounts to 14% in this quarter, which is an improvement from their combined share of 11% recorded in the previous quarter (**Figure 2**). With the gradual rise in the number of BB providers, the shift in market shares is expected to become more prominent.



During the quarter, 80% of the BB transactions were performed over the counter (OTC), with its share falling from 81% recorded last quarter, whereas the share of m-wallets remained unchanged at 14% (**Figure 3**). The highest growth in transactions via m-wallets was seen in Easy Paisa due to their strategic focus on promoting m-wallets. Furthermore, the number of agent transactions carried out for liquidity purposes rose marginally from 5% in the last quarter to 6% in Dec 2013.



In terms of share in value of transactions, OTC and m-wallet transactions held a share of 50% and 6% respectively, whereas 44% share was attributed to agent transactions for liquidity management which is higher than 42% registered last quarter (**Figure 4**). The fresh players' concerted efforts for expanding their agent network are leading to visibly increasing liquidity requirements of agents with each quarter.

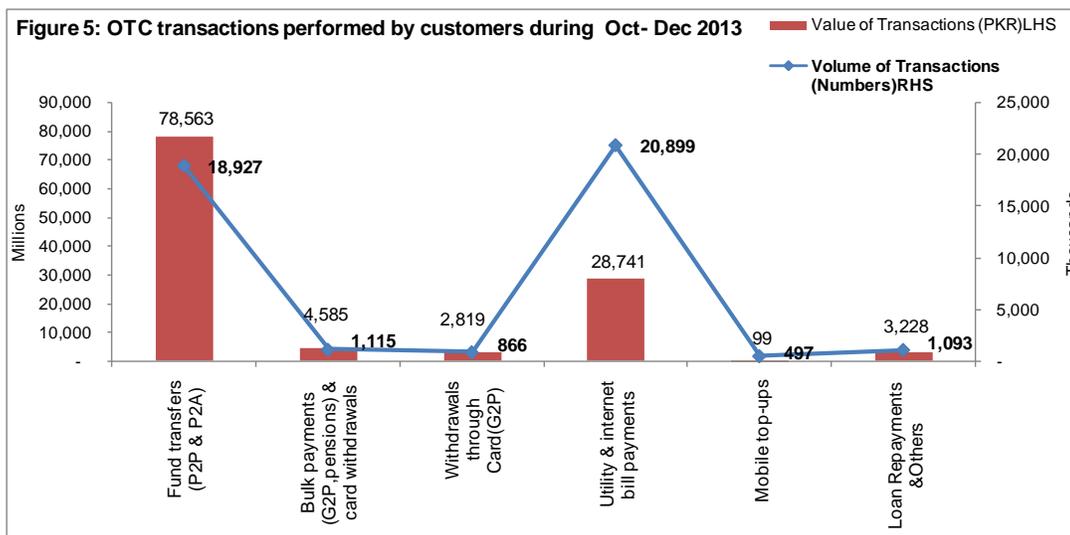


## OTC Transactions

BB Customers carried out more than 43.4 million OTC transactions valuing Rs. 118.0 billion, slightly higher than Rs 41.9 million OTC transactions valuing Rs 116.7 billion recorded in the last quarter, thus showing marginal growth of

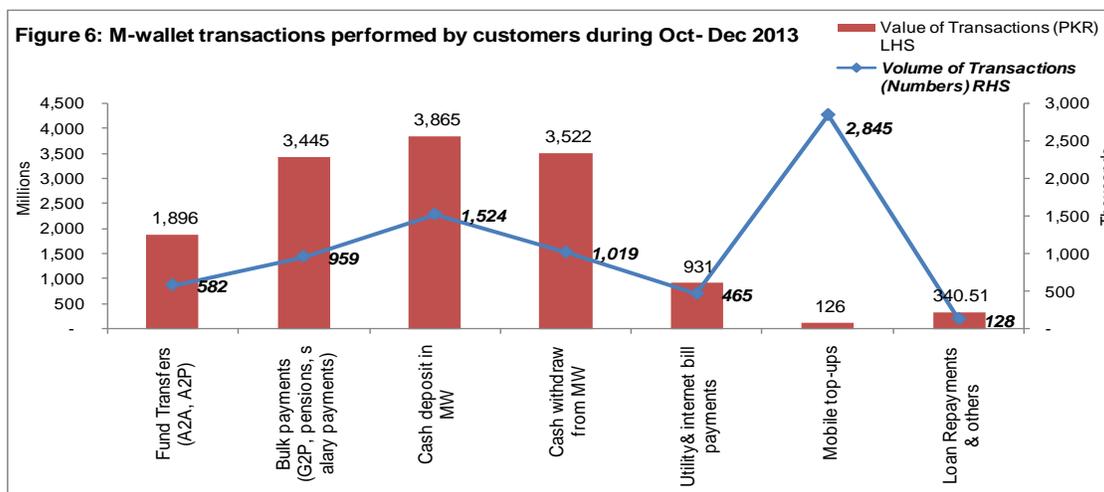
4% in volume and 1% in value (Table 3). Most of the OTC transactions comprised of utility and internet bill payments (49% share) and fund transfers (44% share) whereas OTC transactions for mobile top ups showed the highest growth in comparison to the past quarter (34%). Even in terms of value, fund transfers and utility bills continued to hold top shares (67% and 24% respectively).

During the quarter, G2P disbursements worth Rs 8.03 billion were released through BB OTC channels for beneficiaries but since most of the payments were made towards the end of the quarter, withdrawals did not rise in tandem, and witnessed a decline of 48% (Figure 5). Further loan repayments grew by 35% over the December quarter. Currently only Easy Paisa and Omni are facilitating such transactions and rising trend is being seen within this category with each successive quarter (Figure 5).



### M-wallets Transactions

M-wallet holders performed 7.5 million transactions worth Rs. 14.1 billion during the quarter, 4% higher than 7.2 million transactions, and 6% higher in worth than Rs 13.5 billion recorded last quarter. The highest number of m-wallet transactions were conducted for mobile tops ups (38% share) and cash deposits (20% share), whereas the highest valued m-wallet transactions came from cash deposits (27%), cash withdrawals (25%) and Bulk payments including G2P payments (21%). (Figure 6)



The diversification of product offering is imperative for m-wallet take up and it is encouragingly noted that the volume and value for utility bill payments, loan repayments, and mobile top ups are increasing with each quarter. Loan repayments, though a small portion and a relatively new product offering, have grown the most during this quarter, increasing from 6 transactions worth Rs 56,500 during the quarter ending September 2013, to 151 transactions

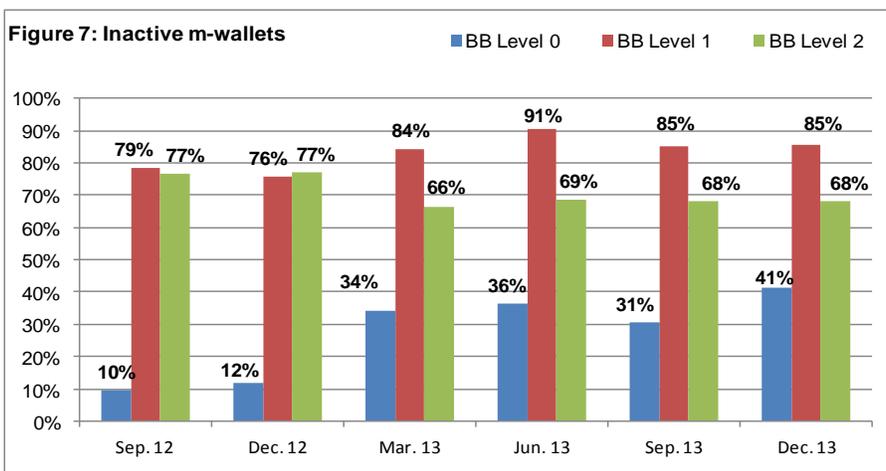
valuing 340 million during the quarter ending December 2013, where the growth primarily stemmed from the leading BB provider. Furthermore, during this quarter, 111,296 loan disbursements worth Rs 322.9 million were made, compared to 48,779 disbursements worth Rs130.6 million in the quarter ending September. Currently only Easy Paisa is offering repayments, while Omni initiated facilitation of disbursements by m-wallets since the last quarter. As of December 2013, 14% of BB loan payments, (including disbursements and repayments carried out by OTC and m-wallet channels) are being routed through m-wallets.

The long-term success of branchless banking in Pakistan rests on how well an m-wallet can be used as an all-in-one medium for holistic access to previously unavailable financial services. In this backdrop, Loan disbursements and repayments represent a large opportunity area to mobilize m-wallets and it will be interesting to follow this development in the coming quarters to see how substantially m-wallet transactions may take over the share of OTC.

### Branchless Banking Account Activity

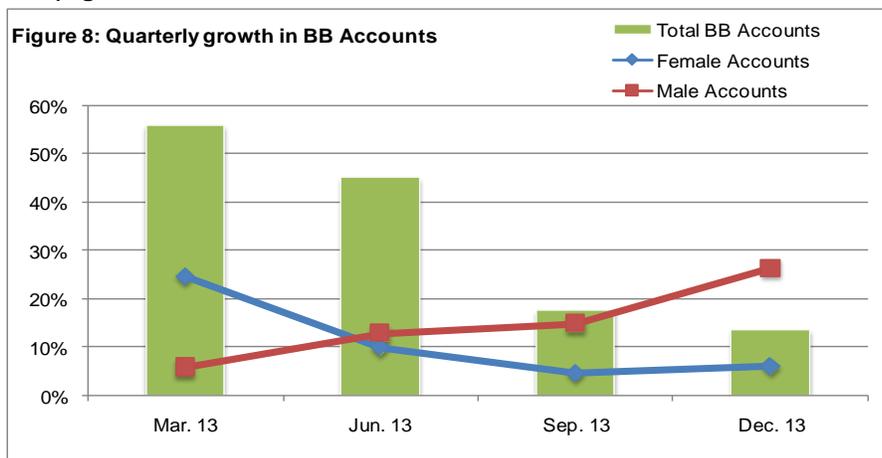
Over the year, BB accounts have grown by 65%. During the quarter, 519,739 new BB accounts were opened, prompting total BB accounts to increase by 17% over the quarter and cumulatively reach 3.5 million in number. Out of the gross new 519,739 accounts opened during the quarter, 95% were level 0 accounts, which have driven total level 0 accounts to reach 2.3 million. Almost 90% of the new level 0 accounts were opened by the Easypaisa.

Nonetheless, dormancy in m-wallets is significantly prevalent where 54% of total accounts are currently inactive. **Figure 7** represents the share of inactive account in total accounts and as of Dec 2013, 41% of total level 0 accounts are inactive, 85% of level 1 accounts are dormant and 68% of level 2 accounts not in usage. The past trend of more than a year dictates that inactivity in level 0 and level 1 is consistently rising and BB providers should work towards optimizing the customer experience and identifying the factors that drive high levels of consumer relationship to accelerate m-wallet usage.



Looking back at 2013, even though the number of accounts have increased, the quarterly growth in BB accounts does not show a clear upward trend since lately most efforts of BB service providers have been centered on increasing their respective market presence via OTC channels. Further, the focus to bring the female demographic within the financially inclusive sphere via m-wallets has been neglected, as seen by subdued growth in female BB accounts in comparison to male accounts (**Figure 8**).

According to the labor force survey 2012-2013<sup>1</sup>, women constitute 13.7 million of Pakistan's labor force, out of which 83% are based in rural areas. This represents a prime stratum for m-wallet take up. While 4.7 million females have already been sensitized to BB via the BISP G2P program, vast potential exists within the female demographic for further exploration as well.

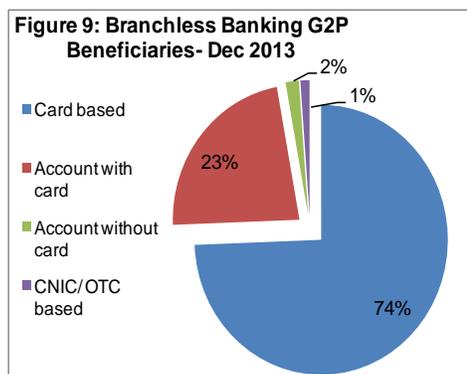


<sup>1</sup> www.pbs.gov.pk

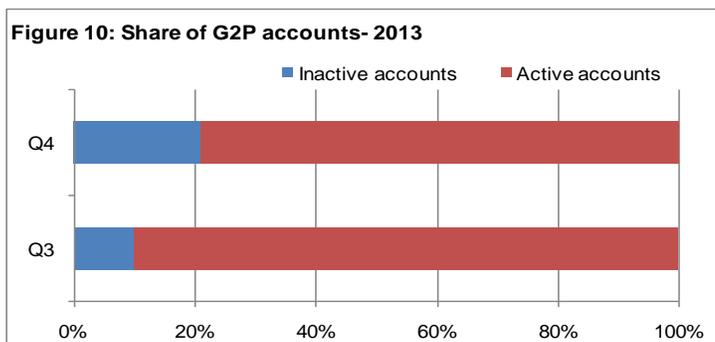
Female agents in rural and peri-urban areas may aid to garner wider interest and comfort amongst females to open m-wallet accounts. Financial inclusion initiatives such as branchless banking can, if properly designed and implemented, enhance women's economic empowerment and as the BB market is maturing, it is hoped that BB players begin to also incorporate gender inclusive strategies for wider outreach in m-wallet adoption.

### G2P Accounts

Government to Person payments integrated within the BB channels can prompt the under-banked masses to readily adopt BB, by making m-wallets viable. Branchless banking G2P beneficiaries have increased to 4.4 million by December 2013; out of which card based beneficiaries have reached 3.3 million and account based beneficiaries have climbed to 1.0 million. From the total G2P beneficiaries facilitated via BB, 74% do not have an account but use a card to get their payments, whereas 23% use a card with an account. Only 2% beneficiaries use their mobile handsets and 1% of the total G2P beneficiaries utilize their CNIC via OTC channels. As of December 2013, the G2P accounts hold Rs 805 million in deposits.



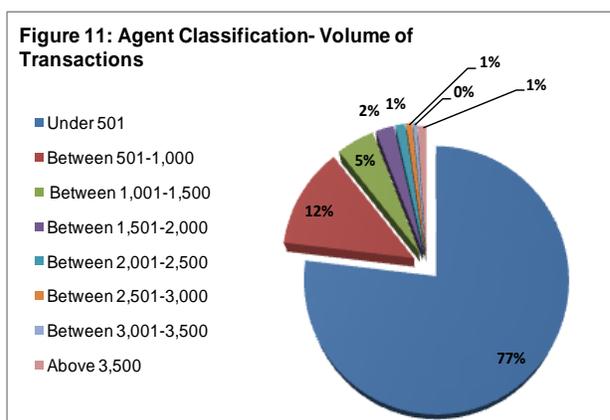
During the quarter ended December, Rs 7.9 billion was disbursed via BB channels for G2P beneficiaries, higher than Rs 7.7 billion in last quarter. Benazir Income Support Programme disbursements held the highest share with up to 82% of G2P payments going through BISP Card 0, and BISP mobile 1 & 2. The Benazir Income Support Programme which is the country's main social safety net was established by the Government of Pakistan in July 2008. Its main purpose is to provide immediate relief to the poorest, enabling them to absorb the shock of rising prices of food and fuel. Currently BISP accounts constitute 47.8% of the total BB G2P accounts, out of which 1.0 million are account based with card, whereas almost 51,000 are BISP mobile 1 and BISP mobile 2.



During the second half of 2013, activity in G2P accounts has reduced. From 90% G2P accounts being active in September 2013, there are now 79% active G2P accounts in December 2013 (Figure 10). Only two players, Omni and Easy Paisa currently have a G2P account portfolio with a market share of 78% and 22% respectively. But going forward, with new players entering the BB arena it is expected that the service providers will recognize the value that G2P accounts hold for not only improved BB outreach and financial inclusion but for enhanced awareness about branchless banking within the marginalized segment of Pakistan.

### Agent network- Growth and Performance

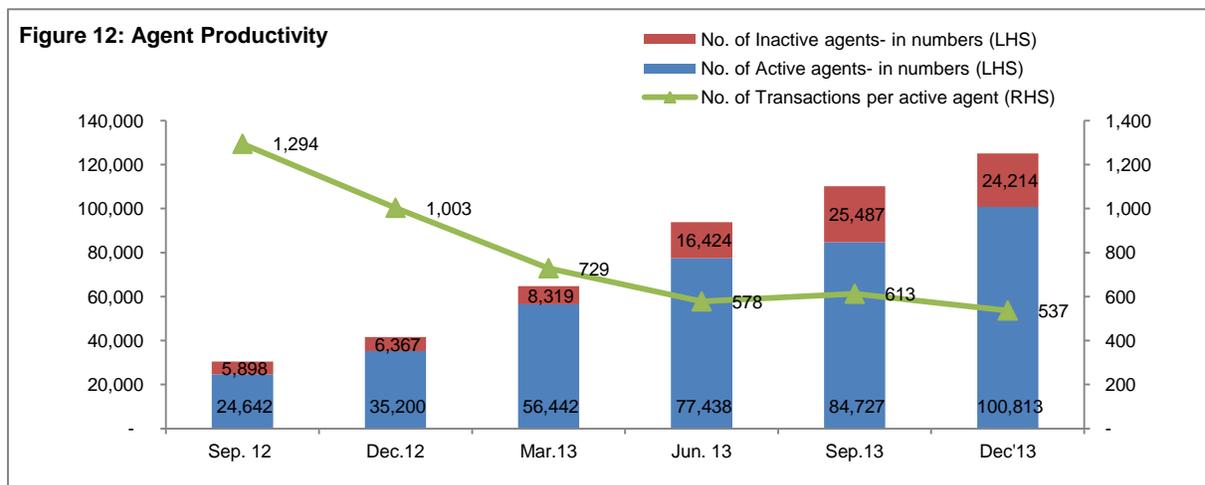
Agent numbers continued to rise during the 4<sup>th</sup> quarter of 2013, reaching 125,027 in December, showing a quarterly growth of 13%. From 41, 567 in December 2013, the spread of agent network has been phenomenal. As highlighted in previous BB Newsletter issues, roughly half of these agents represent actual access points whereas the rest represent shared arrangements, where up to 5 BB players are sharing one agent. Therefore, one can say that during the year agent level interoperability, rather than agent based access points, increased significantly.



The share of active agents in total agents increased to 81%, from 77% last quarters. A growth of 19% was recorded in agent activity, whereas inactivity in agents subdued by 5%. Out of the active agents, 77%, of agents, facilitated less than 501 transactions higher than 76% in the same category last quarter (Figure 8). Furthermore within the classification of agents performing less than 501 transactions, 39% performed less than 50 transactions during the quarter. **(Figure 11)**

Even though agents are increasing in number, the productivity in is not improving in tandem **(Figure 12)**. Although the agents are being intensely shared by BB players, it should reflect improved agent productivity in order to translate in to denser outreach of financial services to the unbanked.

There is no doubt that the agent network holds great importance to facilitate the un-banked and under-banked masses as a step on ramp to financial inclusion via branchless banking. But the real value of branchless banking lies within m-wallets through which access to financial services can be available in the palm of the financially excluded. Nevertheless to achieve that milestone, concerted efforts are required from the industry players to create public awareness regarding branchless banking, m-wallets, and financial management, via focused financial literacy initiatives.



## Branchless Banking Snapshot

Table 1: Key Indicators

Indicators	Q3 2013	Q4 2013	Quarterly Growth
Number of Agents	110,214	125,027	13%
Number of Active BB Agents	84,727	100,813	19%
Number of Accounts	2,966,306	3,475,458	17%
Deposits as of date (Rs. in millions )	2,319	2,639	14%
Number of transactions during the quarter (No. in '000')	51,886	54,100	4%
Value of transactions during the quarter (Rs. in millions)	223,823	234,646	5%
Average Size of Transaction (in Rs.)	4,314	4,337	1%
Average number of transaction per day	576,515	601,113	4%

Table 2: Volume and value of different types of transactions

S.#	Type of Transactions	Jul-Sep 2013		Oct-Dec 2013	
		Volume of Transactions (Numbers)	Value of Transactions	Volume of Transactions (Numbers)	Value of Transactions
<b>1</b>	<b>Agents transfers for liquidity</b>				
	Agent account to agent account	1,436,956	44,941,997,319	1,460,780	37,801,291,938
	Agent account to bank account	218,940	15,512,054,019	220,891	7,300,267,611
	Bank account to agent account	1,176,430	33,223,723,968	1,220,731	40,177,920,129
	Cash Deposit in L3 by agents			278,025	17,203,947,072
<b>2</b>	<b>Fund Transfers</b>				
	<b>Fund transfers through M-wallets</b>				
	MW to MW transfers	61,559	56,644,629	82,237	21,607,351
	MW to bank account transfers	6,258	94,807,278	6,486	81,634,943
	Bank account to MW transfers	5,781	32,204,964	7,366	57,868,417
	MW-to-person fund transfers	381,926	1,544,545,815	485,907	1,735,184,951
	<b>Fund transfers through CNIC</b>				
	Person to person sending	8,979,870	36,572,482,100	9,221,941	38,368,327,888
	Person to person receiving	9,401,917	38,296,195,525	9,703,241	40,187,394,016
<b>3</b>	<b>Bulk Payments</b>				
	<b>Government to Person Payments</b>				
	G2P through MW	1,013,642	3,039,761,800	870,025	3,023,779,137
	G2P through card	1,208,561	4,225,487,400	1,077,965	4,366,790,801
	<b>EOBI Pensioners</b>				
	Pension payment through MW	53,185	206,786,502	67,065	261,106,645
	Pension payment through OTC	-	-	36,556	218,642,182
	<b>Salaries payments and Others</b>	16,429	66,615,740	22,028	160,119,467
<b>4</b>	<b>Cash deposit &amp; withdrawal</b>				
	Cash Deposited in MW (including person to MW transfers)	1,452,585	3,639,828,277	1,525,877	3,873,157,997
	Cash Withdraw from MW	1,286,766	4,130,155,962	1,019,011	3,522,233,616
	Cash withdraw through card (G2P)	1,511,466	5,437,123,388	866,480	2,818,873,100
<b>5</b>	<b>Bill Payments &amp; Top ups</b>				
	Utility Bills Payment	19,792,916	29,794,648,499	21,183,788	29,455,581,313
	Internet Bill Payments	158,108	185,308,455	180,243	216,662,898
	Mobile Top-ups	2,915,396	198,641,071	3,342,367	225,285,428
<b>6</b>	<b>Loan</b>				
	Disbursement	85661	223124870.2	197,640	472,646,909
	Repayment	571,677	1,399,966,554	590,008	1,895,276,824
<b>7</b>	<b>Others</b>				
	Donations	13,478	1082889.97	15,004	245,589
	Retail Payments	137	147475	2,171	15,494,084
	PIA ticketing	173	2,347,608	42	557,073
	International Home remittance	34,620	936,461,127	25,246	695,914,749
	Account Opening Transactions	60,808	18,704,056	63,473	18,074,055
	Cash collection/payment services	41,077	42,317,447	327,575	469,905,999
	<b>Total</b>	<b>51,886,322</b>	<b>223,823,164,738</b>	<b>54,100,169</b>	<b>234,645,792,182</b>

## Branchless Banking Snapshot

Table 3: Customers' Transactions Analysis - OTC vs. M-wallets

Type of Transactions	OTC		M-Wallets	
	Volume of Transactions (Numbers)	Value of Transactions	Volume of Transactions (Numbers)	Value of Transactions
<b>Fund Transfers</b>				
<b>Fund transfers through M-wallets</b>				
MW to MW transfers	-	-	82,237	21,607,351
MW to bank account transfers	-	-	6,486	81,634,943
Bank account to MW transfers	-	-	7,366	57,868,417
MW-to-person fund transfers	-	-	485,907	1,735,184,951
Person to MW fund transfer	1,978	7,738,129	-	-
<b>Fund transfers through CNIC</b>			-	-
Person to person sending	9,221,941	38,368,327,888	-	-
Person to person receiving	9,703,241	40,187,394,016	-	-
<b>Bulk Payments</b>				
<b>Government to Person Payments</b>	-	-		
G2P through MW	-	-	870,025	3,023,779,137
G2P through card	1,077,965	4,366,790,801		
EOBI Pensioners				
Pension payment through MW	-	-	67,065	261,106,645
Pension payment through OTC	36,556	218,642,182	-	-
Salaries payments and Others	-	-	22,028	160,119,467
<b>Cash deposit &amp; withdrawal</b>				
Cash Deposited in MW (including person to MW transfers)	-	-	1,523,899	3,865,419,868
Cash Withdraw from MW	-	-	1,019,011	3,522,233,616
Cash withdraw through card (G2P)	866,480	2,818,873,100	-	-
<b>Bill Payments &amp; Top ups</b>				
Utility Bills Payment	20,722,901	28,529,757,286	460,887	925,824,027
Internet Bill Payments	175,759	211,118,003	4,484	5,544,895
Mobile Top-ups	496,933	99,383,924	2,845,434	125,901,504
<b>Loan</b>				
Disbursement	86,344	149,677,154	111,296	322,969,755
Repayment	589,857	1,894,937,300	151	339,524
<b>Others</b>				
Donations	953	86,242	14,051	159,347
Retail Payments	-	-	2,171	15,494,084
PIA ticketing	37	487,467	5	69,606
International Home remittance	25,227	695,793,571	19	121,178
Account Opening Transactions	63,473	18,074,055		
Cash collection/payment services	327,294	468,546,104	281	1,359,896
<b>Total</b>	<b>43,396,939</b>	<b>118,035,627,222</b>	<b>7,522,803</b>	<b>14,126,738,212</b>

Note: To describe the nature of transactions, definitions of the terminologies used in above tables are given in Appendix-1

## Events

### Governor SBP, Mr. Ashraf Mahmood Wathra inaugurates Mobile Commerce 2014, 7<sup>th</sup> International Conference in Pakistan

A one-day conference was organized by Total Communications on March 13<sup>th</sup> 2014 in collaboration with Bank Alfalah and supported by State Bank of Pakistan and Pakistan Telecommunication Authority (PTA). The conference was inaugurated by the Governor of SBP, Mr. Ashraf Mahmood Wathra.

"Currently, eight branchless banking deployments are live in the market and four more yet to go live this year," said the Governor at the inaugural session of 7th International Mobile Commerce Conference held in Karachi.

In his address, he stressed that despite phenomenal spread of banking business in Pakistan, we have a long way to go to achieve digital financial inclusion in the country. "Our branch network of almost 12,700 is insufficient to serve the millions of unbanked masses," Governor said, adding that branchless banking was playing pivotal role in spreading business of banks to those remote areas where their physical presence was difficult for one reason or the other.

He also highlighted that SBP and PTA are working in close coordination to introduce rules and regulations to protect users of mobile commerce and branchless banking system. Dr. Muhammad Saleem, member commercial of PTA, said that the use of mobile banking will help banks to tap 20 percent unbanked people by 2020 in Pakistan. He said that the economic impact of mobile financial services by the year 2020 would be: increase GDP by three percent; create one million new jobs; create up to 600,000 new businesses; and increase remittance services by 24 percent at international level. He said that the auction of 3G and 4G licenses soon will change the life style of people in Pakistan, while the technology will introduce a lot of new services to customers.

The conference also featured two panel discussions in which people from banks, telecom sector and other technology companies spoke at length on mobile commerce and related issues.



## SBP convenes the 3<sup>rd</sup> meeting of the Branchless Banking Consultative Group

The Branchless Banking Consultative Group (BBCG) is a forum, set up by SBP in 2012, to serve as an advisory body for SBP to develop branchless banking policies and a progressive regulatory framework for our evolving financial market. Consisting of the best minds in the branchless banking industry, the forum has representation from leading MFBs, Commercial Banks, MNOs and related third party entities which have shaped the branchless banking industry in recent years. After two successful meetings, the third BBCG meeting was held on 19<sup>th</sup> February 2014 in State Bank of Pakistan, under the Chairmanship of Mr. Muhammad Ashraf Khan, Executive Director, Banking Policy Regulations & Development Finance Groups (BPRG & DFG). The agenda for the meeting was to promote solution oriented deliberation on the following areas critical to BB's growth:



1. Implementing Biometric technology- its potential for KYC, security, and convenience
2. Agents' sharing- current status, risks and desired strategies
3. Showcasing the preliminary software application designed by SBP, for sharing information regarding blacklisted agents
4. Encouraging the creation of an industry wide agent capacity building programme

The members of the BBCG comprise of heads of BB providers, BB partnered telcos, payment gateways, PTA, and NADRA. All participants were actively encouraged to share their ideas, concerns, and recommendations relating to the agenda items of BBCG. The third meeting led to sound ideas for resolution of key areas of concern for the BB industry, and most importantly, towards the formation of two pertinent industry-led working committees on biometric verification for BB, and industry wide fund for agent development and awareness campaign for m-wallets.



## Exposure Visit of Turkish Delegation to State Bank of Pakistan

The Agricultural Credit & Microfinance Department, SBP arranged an exposure visit for a four member Turkish delegation on the matters of legal and regulatory framework for microfinance. The delegation comprised of Mr. Ali Arslan, Mr. Mehmet Alper Batur, Mr. Veysel Ergenc, and Mr. Burak Esen. The members of delegation represented the Turkish Undersecretariat of Treasury and Banking Regulation & Supervision Agency. The delegation was

welcomed and briefed by Mr. Muhammad Ashraf Khan Executive Director of BPRG and DFG. During the two day visit to SBP on 25-26 February, 2014, meetings of the visiting delegation were arranged with different departments of SBP and microfinance industry players, in order to provide them an insight of the financial inclusion initiatives, policy perspective, innovative approaches, business models, microfinance businesses, legal and regulatory framework in Pakistan.

The learning from Pakistan's central bank policies would assist the delegation in developing a sound regulatory framework for Turkey's microfinance sector and in drafting a microfinance law as a part of their financial inclusion strategy, since currently in Turkey the microfinance services are mainly provided by NGOs without any formal legal & regulatory framework. In addition, Pakistan's microfinance industry and branchless banking business models would facilitate in developing an inclusive and cost efficient financial system in Turkey.



## Local News

### Bank Alfalah, Muller & Phipps Pakistan to launch Branchless Banking

Muller & Phipps Pakistan (M&P) and Bank Alfalah Limited (BAFL) have signed an agreement appointing M&P as a super agent of the Bank, to offer branchless banking services to clients through its widespread network of retail outlets. Together, both organizations will employ state of the art technology to provide financial solutions to large segments of the unbanked and under banked population in Pakistan. Speaking at the occasion Mr. Atif Bajwa, Chief Executive Officer, Bank Alfalah said: "Joining hands with M&P, the largest and oldest distribution company of Pakistan, is an innovative step to support the creation of an alternate payments ecosystem. With enhanced scale for our branchless offering through M&P's vast, nation-wide footprint, we are optimistic that this collaboration will eventually provide a platform for multiple players to synergize their expertise and cohesively augment financial inclusion in Pakistan. Mr. Kamran Nishat, Managing Director & CEO of M&P said: "A robust payment infrastructure is critical for the long term development of branchless banking in Pakistan. Agent network management holds pivotal position in the branchless banking ecosystem and its future course shall be largely driven by innovation and professional management at the execution front. We envision financial services to be delivered by multiple banks through M&P foot print across Pakistan to reach the targeted population in rural, urban and remote areas." Bank Alfalah's recent experience with G2P payments (BISP and Watan Card schemes) positions it well to enhance its capabilities within the branchless domain. This latest collaboration with M&P is another step in the direction of enhancing 'transacting convenience' for customers across the country.

### Pakistan's UBL launches branchless banking Omni in UK

United Bank UK (UBL UK) – a subsidiary of United Bank Limited and National Bank of Pakistan launched its agent-based money transfer service, UBL Omni in UK. UBL UK is the first UK regulated bank which is offering a money transfer service through a network of authorized agents. This service will enable the Pakistani diaspora living in the UK to transfer money within minutes to their loved ones in Pakistan. Currently only offered to Pakistan, this is a vital service for those who do not have access to banking or to the internet. Through this facility, the customers can make remittances at competitive exchange rates from their nearest agent without paying a fee. Also, the beneficiary can receive cash in Pakistan within minutes at more than 1,200 UBL branches in Pakistan or receive direct credit in account at any of the 38 banks operating in Pakistan or through more than 6,500 ATMs.

Speaking to the media, Mansoor M Khan, CEO, UBL UK said, "Customers want a convenient and effortless service. UBL UK has launched a smooth and seamless agent based remittance service that aims to provide a fast, secure and convenient channel to remit money and beneficiaries can now receive transfers within minutes."

### Pakistan's banks moving towards technological advancement

"Pakistan's banking industry has been moving rightly towards technological advancement at par with global emerging fashion bringing changes in the lives of masses through providing them convenience with value-added services and innovative features," said Mahmood Kapurwala, CEO Avanza Solution. In an interview to Daily Times Newspaper, he said the banking industry of Pakistan is far ahead of the countries of similar economies mainly as the banks adopt technology in their systems to facilitate customers and their businesses. Banks are advancing towards new projects with their system to get an edge over the competition while providing various facilities to their customers free of cost. These will bring cardless transaction system in the country which will further pave the way towards POS and electronic money transactions for customers in the urban areas.

## International News

### Orange launches 'Orange Money International Transfer'

Orange is launching a quick and easy international money transfer service at a competitive price called "Orange Money International Transfer". The offer is available between Mali, Senegal and Cote d'Ivoire. Every year, 200 million Euros are moved between those three countries in the form of money transfers. With the new service, Orange meets the needs of the growing number of Orange Money customers. Orange Money International Transfer allows money to be sent and received from one's mobile phone with complete security. Users no longer need to have cash with them when they travel, and sending cash doesn't have to be done by a third party. "We are proud to be the first operator to offer customers the ability to make international money transfers between mobile phones in this area of Western Africa," says Thierry Millet, director of the strategic NFC and payment program at Orange. Orange's goal is to expand this first-of-a-kind service in Africa to other countries in which the group is present. Available in 13 countries in Africa and the Middle East, Orange Money has more than 7 million customers today.

### Asian Development Bank Approves \$600k for Microfinance Development in Azerbaijan

The Asian Development Bank (ADB), a development finance institution based in the Philippines, has agreed to commit USD 600,000, including USD 300,000 from ADB's Financial Sector Development Partnership Fund, to provide technical assistance for the development of Azerbaijan's microfinance sector. ADB will assist Azerbaijan's financial bodies, including the Central Bank of Azerbaijan, in expanding access to banking services for low-income individuals and small enterprises. It will also help develop a framework for the regulation of the microfinance sector. The effort is also intended to attract investments in other financial services such as micro-insurance and branchless banking.

### Tigo Introduces Cross-border Mobile Money Transfer Service with Currency Conversion Serving Rwanda, Tanzania

Millicom International Cellular, a Luxembourg-based telecommunications company also known as Tigo, recently introduced a cross-border mobile money transfer service between Rwanda and Tanzania that includes currency conversion. The service allows Tigo Cash and Tigo Pesa mobile banking subscribers in Rwanda and Tanzania, respectively, to send money to each other using their mobile phones. According to Mr. Maramba, General Manager for Tigo Rwanda, the service is intended to provide convenient local-currency money transfers as an alternative to traditional money-transfer transactions that deliver mostly in US dollars. The service currently is being made available free of charge.

### Central Bank of Zimbabwe Imposes 5% Tax on Mobile Money Services

The Central Bank of Zimbabwe reportedly has imposed a five-percent tax on the fees charged to effect mobile money transactions such as cash transfers, cellular phone payments and utility bill payments following lobbying effort by the Bankers Association of Zimbabwe, a nonprofit organization of member banks. The lobbying efforts reportedly follow the refusal of Econet Wireless of South Africa to integrate EcoCash, its mobile money platform, with Zimbabwe's banking system. The new regulation subjects mobile money platforms to the same tax charged on automated teller machine (ATM) and point-of-sale (POS) transactions. As of January 2014, EcoCash has 3 million subscribers. Econet has operations in Africa, East Asia, Europe and South America.

Based in South Africa, Econet Wireless is a telecommunications group with investments in Africa, East Asia, Europe and South America. It offers mobile and fixed telephone services, internet service and satellite services. The group's subsidiaries include Econet Wireless International, Econet Wireless Africa, Econet Wireless Global and Liquid Telecom. Ecocash is Econet's money transfer service that allows Econet customers to transfer money between mobile phones.

### Colombia regulates prices for m-banking services

Colombia's Communications Regulation Commission (CRC) has issued a resolution to regulate rates for text messages that are used for mobile banking services. The measure wants banks to provide this service free of charge to users and requires mobile operators to reduce prices to be paid by financial institutions for SMS used in banking transactions. This price may not exceed COP 9.20 per SMS. Additionally, the resolution says that users have new

channels (USSD technology) to interact with their bank or financial institution in order to facilitate transactions through any mobile phone. Last year, the text message service in the banking sector exceeded 2 million users, who sent and received more than 200 million text messages.

### **Indian Govt. asked the banks and telecoms to enhance the mobile banking service**

Mobile banking is an important aspect of banking and plays a crucial role in financial inclusion, so it should not remain confined to limited persons. Banks should increase the mobile banking services. At present the mobile banking is very limited in India. RBI has shown its concern over the retarded condition of the mobile banking in the country. Concerned over the mobile banking, Finance Minister Mr. P. Chidambaram and Financial services secretary Rajiv Takru recently had a meeting with banks, mobile operators and the Telecom Regulatory Authority of India (TRAI) to discuss the issue of mobile banking. Further the govt. has asked the banks and telecom to resolve the issues among them and come up with the key services that will ease out the way of millions of customers in making financial transactions.

## Special Section

### Interview with Mr. Faiq Sadiq - Head of Payment Services Group; HBL Express

*Mr. Faiq Sadiq carries an experience of 17 years in financial services. His current principle activity is to lead and direct the strategies for HBL's Payment Services Group including design and delivery of global payment solutions, as well as product management of Branchless & Mobile Banking, Internet Banking and ATMs. Faiq holds a masters degree from Columbia University and prior to joining as head of Payment Services Group, has held the position of Country Head HBL, USA as well as served on the panels of UN and UNESCO for innovative financing options for education and gender specific issues.*



1. [HBL is one of the largest banks and its progression towards financial inclusion via branchless banking holds great significance. What was your motivation to enter branchless banking?](#)

**FS:** For over five decades, HBL has endeavored to provide multiple generations of Pakistanis with need based banking products that are easily accessible. Our natural efforts and mandate over time have thus focused on financially including Pakistan's entire population. In doing so, HBL has set up Pakistan's largest branch banking and ATM networks serving over 5 million customer relationships. Given the inherently complex nature of communicating and distributing financial services to a burgeoning population in a developing nation, this journey has witnessed its fair share of challenges. With the emergence of new service distribution mediums based on information and communication technologies such as mobile phones, it has made intuitive sense for HBL to venture into this arena and develop its own set of branchless banking strategies.

2. [As a newcomer in the branchless banking industry, how is HBL-Express differently positioned than the competition?](#)

**FS:** HBL-Express operates in a market dominated by projects backed by telecommunication companies (Telco). Given a lack of access to mobile network infrastructure on ideal commercial terms, we have thus had to address and overcome infrastructural challenges that Telco backed projects have not. In the process, HBL Express has taken the lead in developing distribution mediums in addition to USSD, such as agent and customer smart phone mobile applications. This has allowed us to develop a universally accessible medium that does not depend on what mobile operator customers use.

3. [Within branchless banking which market are you focusing to cater to and why?](#)

**FS:** In terms of customers or retail branchless banking products we are aiming to serve a universal set of unbanked individuals in both rural and urban areas. As part of this strategy we have initiated our project with standard over the counter products, but the long term focus is to create the right ecosystem based on the concept of Digital Wallets, that will include Wallets through Mobile Handset, Biometric, Debit Card and even Smart Chip CNICs. This strategy has been derived based on the demographic diversity of Pakistan and the requirements of the common people. The concept is to create cashless environment between both Customer to Retail and Retail to Distribution.

4. [It is presumed that it is not a core expertise of commercial banks to develop an agent network. Still, you have taken on this challenge. Can you share with us the challenges you are facing in the process?](#)

**FS:** In creating an agent network, we have faced challenges in identifying ideal agent locations, selecting eligible applicants and rationalizing the business case for each agent outlet. In doing so, HBL has become the first bank in Pakistan to create a HUB and Spoke model of agent network. Although, being bank HBL had to keep its scrutiny and due diligence processes at a very high level that resulted in a gradual uptake of agent network.

5. Can you share what strategies have been adopted to increase the agent network at a rapid rate?

**FS:** We have employed a mix of strategies that include super agency agreements, competitive commissioning, trade promotions, incentive schemes to stimulate our agent network expansion rate. Very recently, HBL has signed a Super Agency Agreement with NADRA Technologies (NTL), which will bring more than 6,000 agents of NTL within the HBL Express distribution network. For the same purpose, HBL is also engaged with multiple other Multinational Distribution Networks operating in Pakistan, to further expand the agent network.

6. HBL-Express has formed partnerships with key stakeholders of the Branchless Banking industry including Warid and NADRA. What role do you see, these and other such alliances, playing for HBL-Express future growth?

**FS:** With each of these strategic partnerships, HBL-Express has managed to create a system that leverages the expertise of each party. Relative to what we've learnt, this is expected to create synergy and allow HBL-Express to focus its energy on what it does best .i.e. designing need based financial products for the market. This helps us utilize our competitive advantage i.e. understanding the demand side of financial inclusion and actually design financial products that appeal to the unbanked.

Our alliance with Warid for USSD provides an advantage to HBL Express, to target that part of the population universe, which is using the low end mobile handsets. Whereas, our partnership with NADRA Technologies gives HBL Express the leverage to service its Product Suite at such an agent network, which is established and running in the market for the past many years.

7. Which technological platform has HBL-Express adopted and why?

**FS:** HBL adopted Sybase 365 technology platform. We primarily selected this platform due to the vendor's (SAP) excellent track record of providing scalable technology solutions with minimal turn around. Given the dynamic growth being witnessed in this sector, this was an essential characteristic required off our technology system. One of the other factors, was the presence of SAPs local partners in Pakistan i.e. Abacus Consulting.

8. As financial inclusion is an overlapping objective of BB and microfinance services, do you envision any role that HBL-Express can play in the growth of microfinance sector in Pakistan directly or indirectly?

**FS:** HBL-Express believes that Branchless Banking and microfinance are complementary services. In fact, we believe Branchless Banking will inevitably serve as a foundation for the revolution in distribution of microfinance services in Pakistan. Branchless Banking is also expected to help increase the net of microfinance customers and make eligibility requirements for microfinance easier to meet over the long run. As for many successful global branchless banking models, customers are able to build sufficient credit histories through use of branchless banking or mobile money. In the long run, the synergy between branchless banking and microfinance will also reduce the administrative and overhead costs for the microfinance organizations. HBL Express is already working on a ready solution for the microfinance organizations that will provide them with a one window solution for both their repayments as well as disbursements.

9. Since to a bank it comes naturally to venture in to deposit mobilization, as a BB provider are you focusing on the current transactional model pivoted around OTC or will you garner support for M-wallets and develop a deposit base?

**FS:** The business model of HBL Express is built on the strategy to create the right ecosystem around the Mobile Wallets. Currently, there are two clear gaps in this ecosystem i.e. funds rotating between the relations of Customer/Retailer and Retailer/Distributor. We believe that with the right product suite this ecosystem can be achieved between the individual customer, retailer and the distributor, that is topped with a corporate solution module for the corporate entities.

We do however believe that the OTC channel is an essential tool that provides initial exposure to unbanked individuals who otherwise lack trust in virtual money and banking. Plain Vanilla OTC products are essentially foundation courses in financial literacy for the unbanked.

10. What are your thoughts on biometric technology for assisting BB operations and does HBL-Express have this development on the horizon?

**FS:** Biometric technology is a brilliant solution to restricted banking service uptake. Among other things this will help reduce operational red tape and back end expenses for service providers. By improving customer validation methods and removing the need for digitizing customer documentation, biometric technology is predicted to

significantly reduce associated expenses and improve customer sign up procedures. HBL Express is fast moving towards in this direction and our collaboration with NADRA Technologies is the first step in this direction.

11. [How do you envision the future growth of HBL's branchless banking operations, and its contribution to digital financial inclusion in the country?](#)

**FS:** Given its rich heritage and immense experience in product design, HBL will inevitably lead the way in this industry. Since product take up has been limited so far, it is essential for leading commercial banks like HBL to focus on developing suitable need based products that appeal to customers. Only when customers see value in the products being offered, will service take up and financial inclusion increase sustainably.

## Appendix 1: Definitions of Terminologies

BB Terminology	Definition
Level 0 account (L0)	Basic MW account with low KYC requirements and low transaction limits
Level 1 account (L1)	Entry level MW account with adequate KYC requirements commensurate with transaction limits
Level 2 account (L2)	Top level MW account for individual customers offering all BB facilities and subject to full KYC requirements
Level 3 account (L3)	Account specific for BB agents, third-party service providers, or businesses
M-wallets (MW)	All level 0, level 1, and level 2 BB accounts
BB Accounts	M-wallets plus level 3 accounts (Level 3 mainly 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"> <li>- Performed at least 1 transaction during the last 180 days.</li> <li>- Opened during the last 180 days.</li> <li>- Account has not been suspended /closed/ terminated for any reason.</li> <li>- Fully compliant with KYC requirements as per BB Regulations.</li> </ul>
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"> <li>- Performed at least 1 transaction during the last 90 days.</li> <li>- Opened during the last 90 days.</li> <li>- Agent has not been suspended /closed/ terminated for any reason.</li> <li>- Fully compliant with KYC as per BB Regulations.</li> </ul>
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)).

<b>Person to person transfer</b>	Number of transactions and amount of money transacted through OTC (transactions from one CNIC to another CNIC).
<b>Bulk Payments</b>	All bulk payments done through BB channel which include wages, pensions, G2P social transfers and welfare payments
<b>G2P payments</b>	Government to person payments which include social transfers and welfare payments
<b>EOBI pensioners</b>	All payments from Employees' Old-age Benefit Institution (EOBI) to pensioners
<b>Salary payments</b>	Salary payments from institutions to its employees
<b>Cash Deposited in a MW account</b>	Cash deposited into MW accounts
<b>Cash Withdrawals from a MW account</b>	Cash withdrawals from MW accounts
<b>Cash withdrawals through card (G2P only)</b>	Cash-out of G2P payment received by Watan /BISP or any other G2P related card holders using BB channel
<b>Other cash collection services</b>	Any other cash collection service such as school fee collection.
<b>Utility Bills Payments</b>	Gas, water, electricity, telephone and any other public utility payment
<b>Loan Disbursement</b>	Loan disbursements through BB channel
<b>Loan Repayment</b>	Loan repayments through BB channel
<b>Donations</b>	Donations collected through BB channel
<b>Merchant payments</b>	Retail payments to authorized merchants to purchase goods/services
<b>Account opening transactions</b>	Limited transactions (as permissible under BB regulations) in m-wallet accounts during account opening / activation process.