

QUARTERLY  
Branchless  
Banking  
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Apr-Jun 2014



Leveraging Technologies and Partnerships  
to Promote Financial Inclusion

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**STATE BANK OF PAKISTAN**  
STATE BANK OF PAKISTAN  
Agricultural Credit and Microfinance Department

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## Branchless Banking Analysis

With every quarter, the branchless banking (BB) industry is witnessing product diversification and new collaborations owing to competitive strategies exhibited by new and experienced operators. Currently, eight BB providers are operating in the market, with a mix of innovative models and technologies to use BB for accelerating financial inclusion in the country. During the current quarter, BB transactions grew to 71.1 million valuing Rs 326.1 billion, which is 4% higher in volume and 17% higher in value in comparison to the previous quarter. The number of BB accounts has significantly grown, registering an increase of 11% (compared to 10% last quarter), and cumulatively reached to 4.2 million in number.

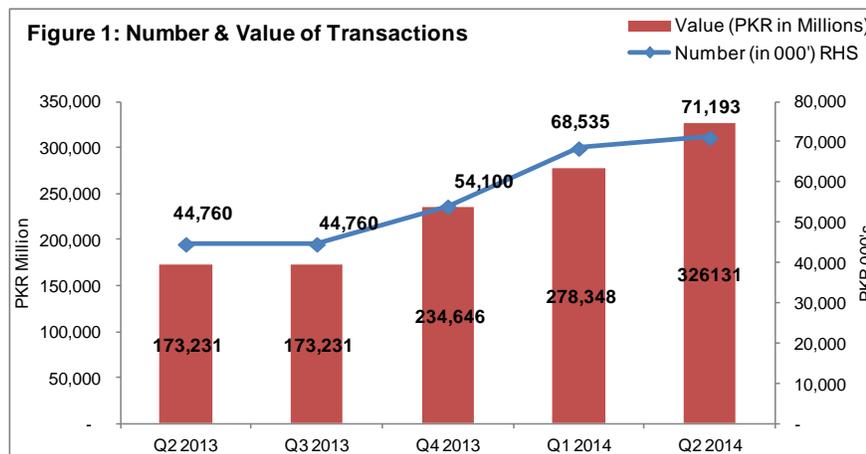
As the industry is evolving, the BB providers can now be categorized in terms of their age, such as (i) The “experienced” market leaders which have been in operations for more than 3 years (ii) the “intermediate” providers with at least a year’s experience in the market and (iii) the “beginner” providers with less than a year’s experience. The combined agent network of these players has increased to 168,615 agents largely owing to agent sharing phenomenon. While agent sharing has increased consumers’ choices, it is also limiting physical outreach of agent locations. Another significant observation is the agent commission which is seeing rapid changes, revealing that few players are steering the agent preferences largely through agent incentivization. In recent months, BB players have increasingly moved to the connectivity with payment infrastructure especially linking the wallets of their customers and agents to ATM switches and IBFT (Inter Bank Fund Transfer – an online real-time connectivity).

While the overall growth in transactions was positive, it was relatively lower during the quarter majorly due to seasonality effect. The over-the-counter (OTC) dominated with 80% share in BB transactions volume whereas share of m-wallet transactions remained at 14%. Though still an initial development, there are clear signs that m-wallets holders have started to experience host of services including fund transfers, utility bill payments, domestic remittances, mobile top ups, loan repayment, and saving account features. BB players are focusing on value propositioning of m-wallets, and offering incentives such as debit cards, merchant payments, and IBFT facilities which has increased volumes of fund transfers to mobile wallets/bank accounts. The players are realizing that key to future BB growth is massive registration of m-wallets. Accordingly, the industry is striving to overcome challenges relating to registration and usage of wallets.

The outlook for the coming quarter is positive considering seasonality effects (largely Eid festivals). In the long run, the market will explore opportunities in key demographic segments including recipients of cash based government salaries and pensions, youth, farmers and women.

## Number and Value of Transactions

The quarter ending June 30, 2014 witnessed 71.1 million BB transactions worth Rs 326.1 billion, which are 4% higher in volume and 17% higher in value compared to the previous quarter (**Figure 1**). The competitive climate created by BB providers with intermediate experience levels, are challenging the market leaders in quarterly growth of volume in BB transactions. Overall almost no growth in volume was seen in EasyPaisa and UBL Omni during the quarter, whereas U-Paisa grew by 46% and Mobicash grew by 26% in volume during the quarter.



The competition is visible in market share as well. In terms of number, EasyPaisa and Omni held 53% and 23% market share respectively, down from 55% and 24% in the previous quarter. Whereas the market shares of smaller aggressive players such as Mobicash, U-Paisa, and HBL-Express are slowly inching up with individual growth in share volume of 1% each. Particularly, Mobicash has captured a market share of 9%.

OTC transactions have remained customer's preferred mode of transactions with an unchanged share of 85% in terms of volume. In overall terms, the share of OTC transactions volume remains at 80%, whereas in terms of value, they seized 50% share, lower than 52% last quarter. The share of m-wallet transactions has remained at 14% in terms of volume and 8% in terms of value during this quarter. Furthermore, the share of agent transactions carried out for liquidity purposes remained the same at 6% in terms of volume, and rose to 42% in terms of value (from 40% in previous quarter) (Figure 3 and 4). These transactions are further analyzed below in the next section.

Figure 2: Share in Number of BB transactions

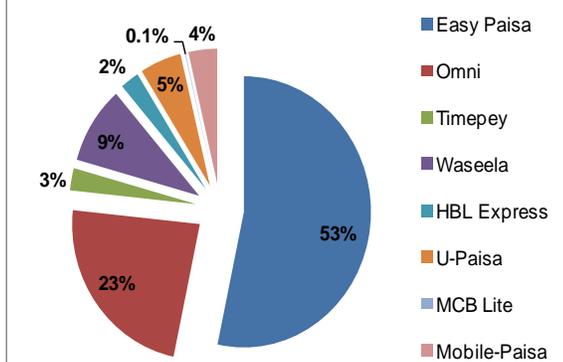


Figure 3: Volume of Transaction (in 000's)

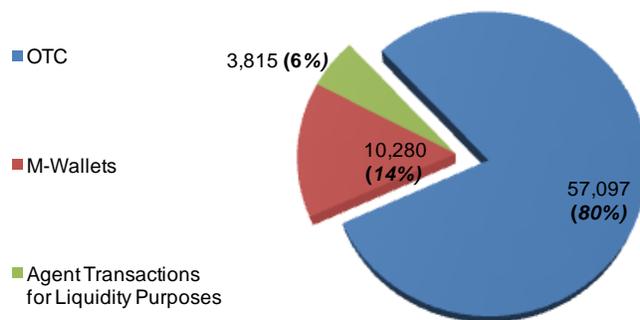
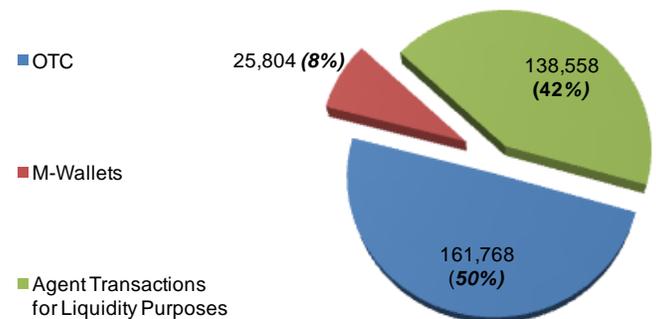


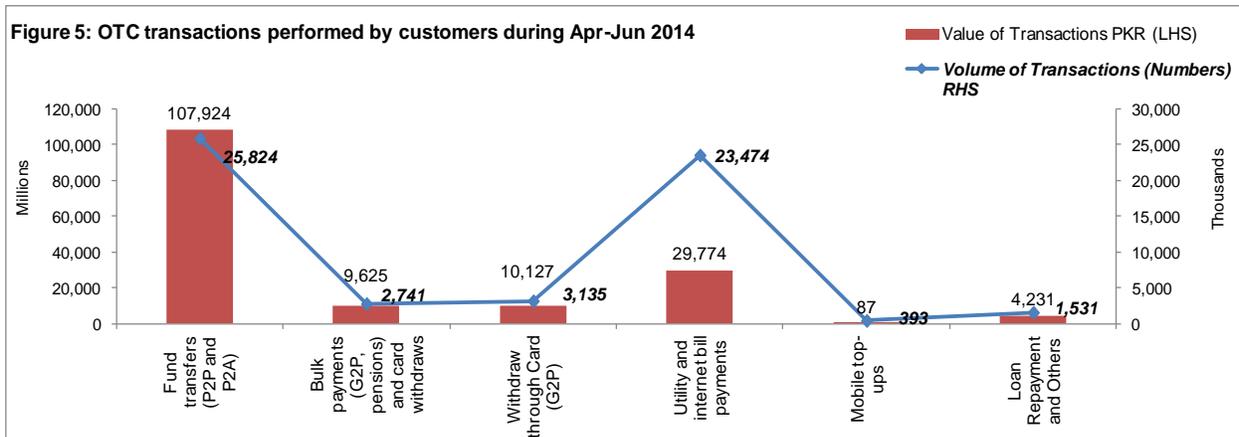
Figure 4: Value of Transaction (PKR Million)



## OTC Transactions

During the quarter, BB customers carried out more than 57 million OTC transactions valuing Rs. 161.7 billion, showing 4% growth in volume and 12% growth in value compared to the previous quarter (Table 3). The highest contribution came from P2P fund transfers with 45% share in volume, where customers carried out 25.8 million transactions worth Rs 107.9 billion. The second highest share in volume (41%) stemmed from utility and internet bill payments with 23.4 million bills paid worth Rs 29.7 billion through OTC channel. (Figure 5)

Figure 5: OTC transactions performed by customers during Apr-Jun 2014

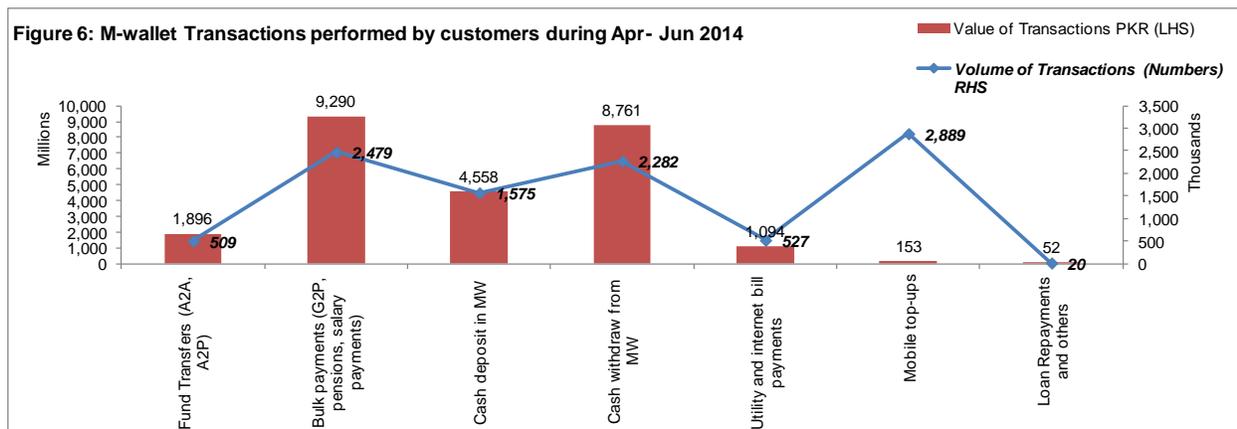


“Receiving transactions from CNIC” seized the largest chunk of OTC funds transfer with over 13.1 million transactions worth Rs 54.8 billion. However, the highest growth in OTC funds transfers was seen in “Person to MW Fund transfers” (54%) which is a relatively new area for OTC customers.<sup>1</sup> Although only 4000 transactions worth Rs 14.7 million were made in this category, it is however encouraging to see initial signs of m-wallet penetration through OTC transactions.

Overall, there was a slight decline in OTC transactions during the quarter owed to the reduced G2P disbursements. Over 3.1 million G2P withdrawals from card were made for Rs 10.1 billion during the quarter, showing a slight decline due to overall reduced G2P disbursements of Rs 16.1 billion, compared to Rs 15.32 billion in the previous quarter. In addition, there was also a slight decline in share of mobile top ups since top-up for one telco was discontinued by a BB market leader. However, value added services such as loan disbursements, repayments and cash collections via OTC channels are on the rise, where collectively 1.4 million transactions worth Rs 3.5 billion were recorded. Recently HBL Express has also contributed to this segment by providing loan disbursement and repayment collection services for First Microfinance Bank and Akhuwat Foundation. Going forward more focus of BB players on value added services will be integral for customer engagement.

## M-wallets Transactions

M-wallet holders carried out 10.3 million transactions valuing Rs 25.8 billion, showing 7% growth in volume and 21% growth in value compared to last quarter. Mobile top ups and Bulk payments (including pensions, BISP and welfare payments) heavily contributed to the volume of m-wallet transactions with 28% and 24% shares respectively. Whereas in terms of value, Bulk (G2P payments), and cash withdrawals seized 36% and 34% share in that order. (Figure 6)



Though OTC transactions are still largely preferred over m-wallets, the BB players are becoming more aware of the value propositioning of m-wallets and offering value added services such as debit cards, merchant payments, and IBFT facilities. As more BB providers are offering IBFT facilities<sup>2</sup> to their m-wallet holders, a rise in m-wallets transactions to and from bank account and a decline in m-wallets to person transactions is being observed. During the quarter, 20,534 Bank account to m-wallet transfers worth Rs 197 million were recorded which is 146% higher in number and 223% higher value than previous quarter. Moreover, 11,325 m-wallet to bank account transfers worth Rs 157.1 million were made showing 80% and 87% growth respectively. Furthermore, m-wallet to person transactions declined by 21% in value and 23% in volume. This reflects integration of BB customers with mainstream banking.

While mobile is a ubiquitous tool to access BB channel, there are other mediums which have a room for growth. There are eight BB players out of which 3 are telco agnostic and independent of the customer’s cellular platform which means that mobile banking in Pakistan has already paved a way out of the mobile realm. The BB players have started issuing m-wallet debit cards to be used on ATMs & POS machines. Moreover, internet based transactions to serve various day to day customer experiences may further serve as a catalyst for BB growth.

<sup>1</sup> Growth in this category was primarily backed by Mobicash through focused agent incentives and promotions

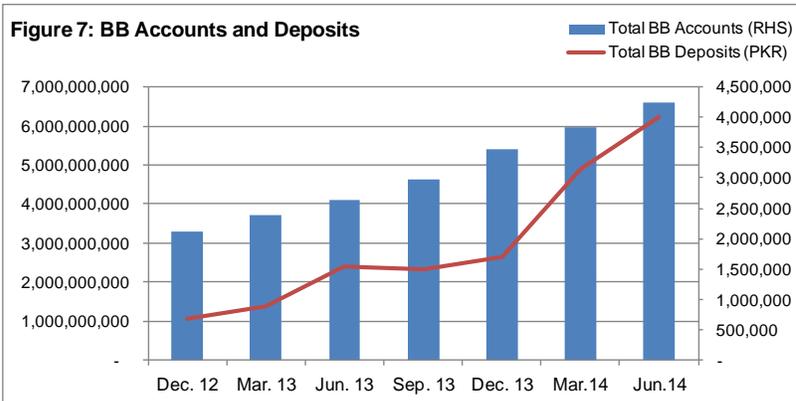
<sup>2</sup> IBFT facilities are being offered by Tameer Microfinance Bank, UBL Omni and U-Microfinance Bank and MCB Lite.

## Branchless Banking Account Activity

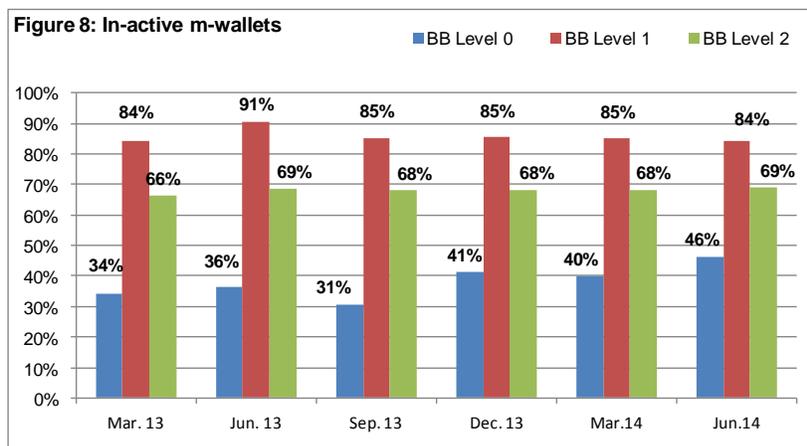
During the quarter 428,890 new BB accounts were opened, prompting total BB accounts to increase by 11% (compared to 10% last quarter) and cumulatively reached 4.2 million in number. Out of the new accounts opened, 94% were m-wallets which have now reached 4.1 million in number. Whereas 6% were Level 3 BB accounts for agents. Furthermore, out of the total m-wallets, 97% were level 0 accounts, driving total level 0 accounts to reach 3.0 million in number.

As the number of accounts is increasing, so are the BB deposits which have increased to Rs 6.2 billion as of June 30, 2014. From the total deposits, 53% stem from agent accounts and 42% are attributed to Level 0 accounts. Moreover G2P accounts are also currently holding Rs 3.6 billion in deposits.

**Figure 7: BB Accounts and Deposits**



**Figure 8: In-active m-wallets**



The market leaders remained at the top in opening new BB accounts. Around 60% of the new accounts opened during this quarter were by EasyPaisa followed by 25% by Omni. However the highest growth in account opening was seen in Mobicash whose BB accounts grew by 40%, which has now placed its market share at 2%. Going forward it is expected that BB operators with moderate experience in the market will get more competitive and speed up the growth in BB accounts.

Yet, the growth in BB accounts will be unproductive if dormancy prevails.

As of June 30 2014, out of the total 4.2 million accounts, 1.93 million are active whereas 2.3 million are inactive accounts (Figure 8). Further analysis shows that only 44% of total m-wallets<sup>3</sup> are active, which is 3% less than the previous quarter. Furthermore, currently 54% of level 1 accounts are active, down from 60% recorded during the previous quarter whereas 16% of level 1 accounts are inactive. Since due to agent sharing the same agents are increasingly serving to more BB service providers, the activity in level 3 accounts has remained at 84% across the industry since the past two quarters. The consistent trends of growing in-active m-wallets for more than a year requires that factors driving acceleration in m-wallet usage need to be identified and incorporated in the BB provider's business strategies.

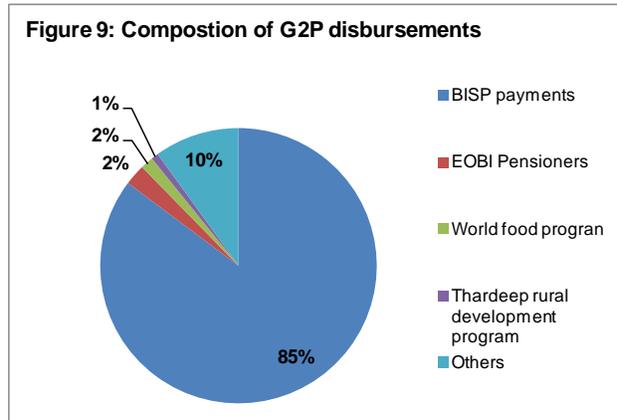
## G2P Accounts

G2P payments integrated within the BB channels can create a viable financial access ramp for the unbanked masses and prompt m-wallet adoption. The suppliers of G2P payments in Pakistan represent social safety net programs, pensioner funds, disaster management disbursements, and several others government payments to the bottom of the pyramid. During the quarter, a total of Rs 16.9 billion was disbursed via BB channels for 5.3 million G2P beneficiaries higher than 15.3 billion disbursed to 4.6 million in the last quarter.<sup>4</sup> Out of the total G2P beneficiaries, 3.6 million are card based, whereas 1.6 million are account based. From the account based beneficiaries, 91% are linked with a card whereas only 9% are card-less accounts i.e. m-wallets.

<sup>3</sup> M-wallets are level 0, level 1 and level 2 accounts only, excluding agent accounts

<sup>4</sup> **DISCLAIMER:** In the quarter January- March 2014, one BB provider had overstated the G2P disbursements and beneficiaries' data. The respective revision should be noted.

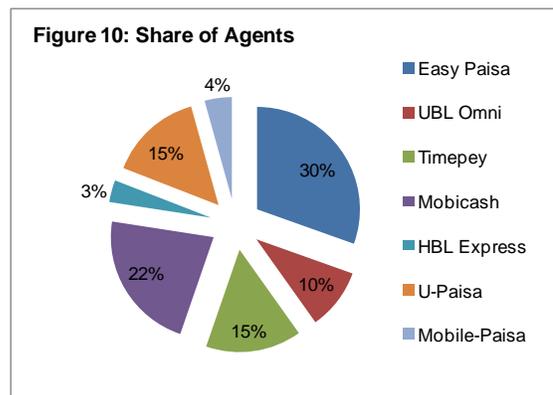
The largest segment of payments of Rs 13.2 billion was directed towards BISP beneficiaries, comprising share of 81% of total G2P payments through BB channels. Furthermore, Rs 481 million worth of EOBI pension payments were made as well. A new G2P entrant in this quarter is Punjab Education Sector Reform Program-(PESRP) which made disbursements of Rs 41.3 million to its 21,808 card based beneficiaries via Easy Paisa during the quarter. **(Figure 9)**



Pakistan's G2P market is vast where over Rs 1 trillion G2P payments are estimated to be made annually in salaries, pensions, and cash transfer programs. More than 76% of these payments are paid in cash whereas 22% are disbursed through cheques / bank accounts<sup>5</sup>. Only 2% G2P payments are digitized via branchless banking, largely fuelled by BISP payments which constitute 80-95% of total digital G2P payments each quarter. This implies that 98% of G2P payments are still un-digitized which represents a substantial segment within the unbanked market of the country which innovative BB players may consider to tap. Here the government and all branchless banking providers have a collective responsibility to build further momentum in G2P payments and tap maximum potential of the unbanked G2P market via BB channels.

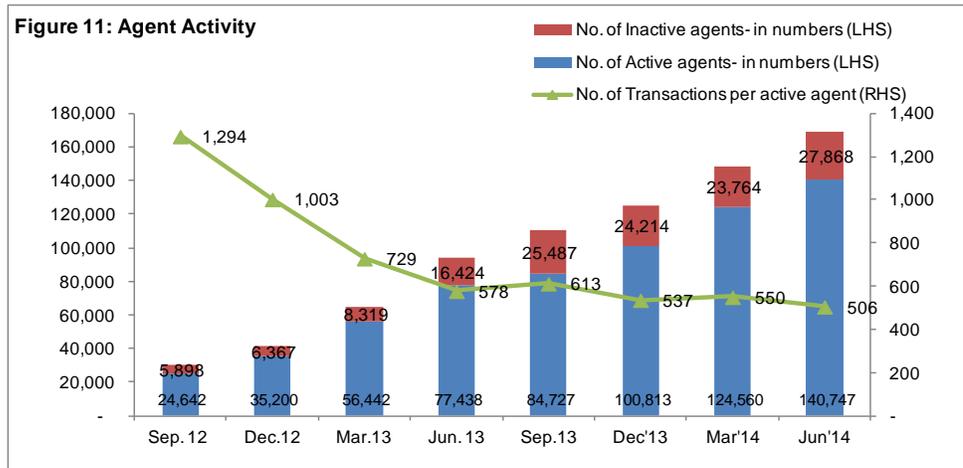
### Agent network- Growth and Performance

Agent numbers grew by 14% during the quarter, reaching 168,615 by the end of June 2014. The share of agents in the market is being dominated by Easy Paisa (30%), whereas Mobicash is inching up as well (22%) **(Figure 10)**. Agent activity is increasing with each quarter where currently out of the total agents, 83% are actively serving customers. Each active agent is facilitating 506 transactions in a quarter, on average. **(Figure 11)**



During the quarter, agent transactions for liquidity purposes declined by 11% in volume to 3.8 million, and 24% in value to Rs 138.5 billion. During this quarter a few players saw a decline in their agent liquidity transactions. The market is witnessing a trend whereby the providers are using excessive agent commissions to steer the agent preferences which is expressed by high growth in the transactions their agents make for liquidity purposes.

As highlighted in previous BB Newsletter issues, roughly half of these agents represent actual access points whereas the rest represent shared arrangements in which up to 7 BB service providers are sharing one agent. Though it can be taken as a positive development since it is promotion interoperability on an agent level, on the flip side it is hindering growth in physical agent access points and hence limiting financial inclusion. 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. For which strenuous efforts are required from the industry players to generate public responsiveness towards mobile wallet.



<sup>5</sup> Based on Consultative Group to Assist the Poor (CGAP) estimates of 2013

## Branchless Banking Snapshot

### Table 1: Key Indicators

Indicators	Q1 2014	Q2 2014	Quarterly Growth
Number of Agents	148,324	168,615	14%
Number of Active BB Agents	124,560	140,747	13%
Number of Accounts	3,831,868	4,238,178	11%
Deposits as of date (Rs. in millions )	4,911	6,219	27%
Number of transactions during the quarter (No. in '000')	68,535	71,194	4%
Value of transactions during the quarter (Rs. in millions)	278,348	326,131	17%
Average Size of Transaction (in Rs.)	4,061	4,581	13%
Average number of transaction per day	761,501	791,041	4%

### Table 2: Volume and value of different types of transactions

S. #	Type of Transactions	Jan-Mar 2014		Apr-Jun 2014	
		Volume of Transactions (Numbers)	Value of Transaction	Volume of Transactions (Numbers)	Value of Transactions
<b>1</b>	<b>Agents transfers for liquidity</b>				
	Agent account to agent account	2,068,785	46,003,315,394	2,749,183	63,685,291,088
	Agent account to bank account	392,909	11,439,816,785	174,159	11,819,773,309
	Bank account to agent account	1,565,842	42,197,471,041	558,647	47,744,605,937
	Cash Deposit in L3 by agents	274,520	12,492,656,717	333,412	15,308,425,045
<b>2</b>	<b>Fund Transfers</b>				
	<i>Fund transfers through M-wallets</i>				
	MW to MW transfers	71,515	44,280,944	75,236	50,690,089
	MW to bank account transfers	9,713	134,290,970	11,325	157,117,592
	Bank account to MW transfers	17,591	164,922,350	20,534	197,299,753
	MW-to-person fund transfers	522,855	1,893,594,080	401,414	1,491,239,176
	<i>Fund transfers through CNIC</i>				
	Person to person sending	11,134,371	44,952,956,975	12,688,632	53,117,214,282
	Person to person receiving	11,663,145	46,979,442,559	13,130,997	54,792,538,657
<b>3</b>	<b>Bulk Payments</b>				
	<i>Government to Person Payments</i>				
	G2P through MW	1,789,049	6,670,001,753	2,374,375	8,698,775,441
	G2P through card	3,635,080	13,549,732,481	2,705,142	9,486,443,172
	<i>EOBI Pensioners</i>				
	Pension payment through MW	78,465	310,610,935	88,573	344,071,584
	Pension payment through OTC	33,474	173,943,985	35,919	137,826,780
	Salaries payments and Others	32,861	241,639,970	16,625	247,829,706
<b>4</b>	<b>Cash deposit &amp; withdrawal</b>				
	Cash Deposited in MW (including person to MW transfers)	1,773,217	4,686,307,994	1,579,371	4,572,254,038
	Cash Withdraw from MW	1,694,942	5,831,896,154	2,281,723	8,761,079,295
	Cash withdraw through card (G2P)	3,330,385	10,849,732,390	3,134,722	10,127,098,508
<b>5</b>	<b>Bill Payments &amp; Top ups</b>				
	Utility Bills Payment	23,653,820	25,861,565,712	23,780,275	30,610,624,255
	Internet Bill Payments	204,689	241,737,086	220,046	257,681,478
	Mobile Top-ups	3,516,185	246,708,028	3,282,503	239,977,369
<b>6</b>	<b>Loan</b>				
	Disbursement	157,407	556,834,322	16,475	281,558,196
	Repayment	552,439	1,627,372,702	673,034	1,006,500,249
<b>7</b>	<b>Others</b>				
	Donations	11,131	444,111	8,236	488,590
	Retail Payments	20,153	158,983,296	12,244	48,402,425
	PIA ticketing	14	255,287	77	1,462,762
	International Home remittance	24,032	662,946,821	24,203	674,408,943
	Account Opening Transactions	70,436	18,967,220	70,983	18,549,453
	Cash collection/payment services	236,094	355,194,301	745,642	2,251,451,389
	<b>Total</b>	<b>68,535,119</b>	<b>278,347,622,360</b>	<b>71,193,707</b>	<b>326,130,678,560</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	-	-	75,236	50,690,089
MW to bank account transfers	-	-	11,325	157,117,592
Bank account to MW transfers	-	-	20,534	197,299,753
MW-to-person fund transfers	-	-	401,414	1,491,239,176
Person to MW fund transfer	3,990	14,290,707	-	-
Fund transfers through CNIC			-	-
Person to person sending	12,688,632	53,117,214,282	-	-
Person to person receiving	13,130,997	54,792,538,657	-	-
<b>Bulk Payments</b>				
<b>Government to Person Payments</b>				
G2P through MW	-	-	2,374,375	8,698,775,441
G2P through card	2,705,142	9,486,443,172	-	-
EOBI Pensioners	-	-	-	-
Pension payment through MW	-	-	88,573	344,071,584
Pension payment through OTC	35,919	137,826,780	-	-
Salaries payments and Others	97	498,190	16,528	247,331,516
<b>Cash deposit &amp; withdrawal</b>				
Cash Deposited in MW (including person to MW transfers)	-	-	1,575,381	4,557,963,331
Cash Withdraw from MW	-	-	2,281,723	8,761,079,295
Cash withdraw through card (G2P)	3,134,722	10,127,098,508	-	-
<b>Bill Payments &amp; Top ups</b>				
Utility Bills Payment	23,260,373	29,524,147,439	519,902	1,086,476,816
Internet Bill Payments	213,284	250,304,927	6,762	7,376,551
Mobile Top-ups	393,474	86,897,606	2,889,029	153,079,763
<b>Loan</b>				
Disbursement	621,171	1,049,465,061	-	-
Repayment	68,258	238,126,654	80	466,730
<b>Others</b>				
Donations	1,192	224,041	7,044	264,549
Retail Payments	-	-	12,244	48,402,425
PIA ticketing	77	1,462,762	-	-
International Home remittance	24,203	674,408,943	-	-
Account Opening Transactions	70,983	18,549,453	399	1,795,415
Cash collection/payment services	744,965	2,249,017,073	278	638,901
<b>Total</b>	<b>57,097,479</b>	<b>161,768,514,255</b>	<b>10,280,827</b>	<b>25,804,068,926</b>

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

### SBP partners with World Bank to create National Financial Inclusion Strategy

SBP has engaged World Bank to provide technical assistance for development of National Financial Inclusion Strategy (NFIS) in Pakistan. The strategy will form the basis for coherent and sequential reforms needed to address both demand and supply side issues to help tackle financial exclusion in an integrated and sustained manner which is currently lacking at the national level.

For this exercise, a World Bank mission commenced a consultative process in the first 2 weeks of September 2014 where the mission conducted detailed consultations with SBP, financial sector players and other relevant stakeholders to understand challenges and opportunities of Pakistan's financial market. The World Bank team will take stock of existing financial inclusion initiatives including policy and regulatory measures, financial market infrastructure and demand side interventions covering the financial education, capability and consumer protection etc. The team will identify gaps in policy and market infrastructure for further development. The team will propose policies and market interventions based on the supply, demand analysis and mapping exercise to tackle financial exclusion. The team will also develop a dissemination plan for financial inclusion strategy for wider consultation and dissemination.



[SBP Governor, Mr. Ashraf Mahmood Wathra addressing key stakeholders of National Financial Inclusion Strategy at a consultative workshop in Karachi.](#)

The team will also develop a dissemination plan for financial inclusion strategy for wider consultation and dissemination.



### USAID conducts Gap Analysis of Mobile Money in Pakistan

A one day workshop on "Gap Analysis of Mobile Money in Pakistan" was conducted by Mr. Lee Kironget, an international consultant on Mobile Money, through a USAID contracting firm M/s. Chemonics International in Islamabad on 12-Sep-2014. The said Gap analysis is a research initiative that seeks to provide insights on the current digital finance state and a roadmap to stakeholders in the mobile money and financial inclusion space. The outcome of the Gap analysis was discussed with the participants, which involved representatives from Banks, Telecom operators, Financial Switch operators, PTA and SBP. The event not only brought together leaders from the Mobile Financial Services industry in Pakistan but also gave them a conducive environment for open and constructive dialogue. Based on the participants' discussions and feedback, the Gap Analysis of Mobile Money Report will be more responsive to Pakistan's unique MFS industry.

### ZTBL, U-BANK Sign MOU for U paisa/ Zari paisa

U Microfinance Bank Limited has signed a Memorandum of Understanding (MOU) with the Zarai Taraqati Bank Limited (ZTBL) to provide personal and corporate solutions through branchless banking services to the customers of ZTBL across Pakistan. According to the MOU, ZTBL customers will be able to avail branchless banking services including but not be limited to funds transfer and receipts, salaries and international remittances on 'Upaisa'. They would also be able to pay loans through branchless banking network. Further, the customers will be able to obtain Upaisa debit card, powered by Union Pay International. Under this arrangement, both the parties will introduce different branchless banking products and services to facilitate the customers. In addition, ZTBL itself will also be able to utilize the Branchless Banking services through U-Bank including salary disbursement to its employees.

Speaking about the MOU, Syed Talat Mehmood, President of ZTBL, said "In line with the vision of Finance Minister, ZTBL Management team is working hard to equip its operations with state of the art technologies to offer most modern banking products to the farmers. This partnership shall result into convenience for our farmers to conduct banking business without visiting to branches. Their mobile phones shall serve as their mobile wallets and they will have convenience to transact business at over 25,000 outlets of Upaisa in addition to 385 ZTBL branches. Thus, our customers will be able to utilize the innovative less banking services. I would also like to add that this MoU and resulting services shall be provided in line with the vision of the Government of Pakistan to increase the access of financial services across Pakistan and serve the under-served rural areas with the modern technology".

### HBL, MasterCard enter into strategic collaboration

Habib Bank Limited (HBL) and MasterCard announced a partnership which will pave the way for the introduction of MasterCard's innovative payment tools in Pakistan that will provide a safe, simple and secure payment experience to cardholders. The announcement was made during a signing ceremony held at the MasterCard's office in Dubai between Faiq Sadiq, Group Head - Payment Services, HBL and Raghu Malhotra, Division President - Middle East and North Africa, MasterCard. "We are very excited about our partnership with MasterCard," commented Sadiq. "We recognize the importance of providing Pakistani's with the latest and most secure payment options. Working with an industry leader such as MasterCard will help us deliver on our commitment to introduce innovative payment solutions for masses in Pakistan."

In a major boost for the growth of electronic payment solutions in Pakistan, HBL, under the new collaboration will issue over 7 million MasterCard payment cards in five years including debit cards that will feature the highly-secure EMV Chip and Pin technology, prepaid cards, premium debit and prepaid cards as well as companion cards issued by HBL Express, the branchless banking arm of HBL. Development of customized solutions that address the specific needs of consumers in Pakistan while also introducing them to the latest payment technologies will be a key feature of this landmark agreement between the two leading institutions. Furthermore, with an objective to diversify its payment solutions portfolio, HBL will also be issuing MasterCard payment solutions specifically for students and the youth

### Payment of Zakat through branchless banking

Provincial Minister for Zakat & Ushr Nadeem Kamran has said that payment of Zakat fund will be made to the Mustahkeen through branchless banking and Telenor Easypaisa has been selected for this purpose. This decision has been taken to save deserving people from the problems in opening bank account and encashment of cheques, he added. Initially a pilot project will be started in this regard in three districts including Lahore, Sheikhpura and Hafizabad while later scope of this scheme will be extended to all districts. The Minister said that branchless banking will help in speedy and easy distribution of Zakat among the deserving persons and they would be able to collect this amount from their nearest Easypaisa shops. He said that a new process of Zakat distribution will be ensured transparency and elimination of corruption. Nadeem Kamran further said that department has decided to enhance the amount of subsistence allowance from 500 to 1000 rupees per person while Zakat will be paid to Mustahkeen after every three months in lump sum. He said that it has also been decided to increase marriage grant for the deserving girls from 10000 to 20000 rupees. He said that Zakat and Usher Department provides financial help of billions of rupees to Mustahkeen and lakhs of people benefit from it every year. The Minister said that under the old procedure Zakat was paid through cross cheque by local Zakat committees and sometimes this process was delayed due to

different reasons whereas under the new system, Zakat will be paid timely and the deserving persons will not have to go to local chairman of Zakat committee.

## **Easypaisa partners with ARY**

Easypaisa has recently partnered with ARY Digital to launch two unique products in the Pakistani market: Gold Committee and Sahulat Bazaar. Using the Gold Committee product, any person in Pakistan can invest small amounts in purchasing gold over time instead of buying it in one go where even Rs.10 as a denomination can be used to purchase gold, whereas the minimum amount of gold that can be purchased in the open market is 1 gram, costing roughly Rs.4500. The ability for customers to engage in micro-investments at the spot price of gold enables them to save up and protects them against inflation. With a vast number of Pakistanis saving informally, with gold being an important instrument, the Gold Committee product can play an instrumental part in financial inclusion and empowering the people in Pakistan.

To purchase gold, customers can walk into any of the 50,000 Easypaisa retailers all across Pakistan and deposit an amount of their choosing into the ARY gold account. When a customer sends in money, a separate account is created with ARY tagged to the customer. All amounts sent will be converted into a gold equivalent balance at that day's prevailing spot market rate and the customer will receive a SMS message from ARY updating them on the gold balance. If the customer keeps depositing, and once the gold balance reaches more than 1 gram, the customer can go to any ARY Jewelers' shop across Pakistan and take physical delivery of 1gram of gold. ARY is promoting this product on ARY's morning show "Good Morning Pakistan" and Game show "Jeeto Pakistan".

The other product launched with ARY Digital is called Sahulat Bazaar, which allows a customer to accumulate funds in an ARY fund that entitles them to participate in lucky draws. The lucky draw is held weekly on the "Jeeto Pakistan" live television show. Customers who do not win any prizes through the draws can still use their funds for online shopping via the Sahulat Bazaar website. The new services are live and being broadcast regularly with considerable uptake in Karachi, Hyderabad and Lahore.

## **Easypaisa enables the disbursements of girl student stipends with the reform support unit (Education & Literacy Department Government of Sindh)**

In June, Easypaisa signed an agreement with the Sindh Education Reform Program (SERP) unit within the Government of Sindh for educational stipend disbursements. The Sindh Education Reform Program (SERP) focuses on improving access to schooling in rural areas by addressing issues of access, quality and governance that remain a challenge in education sector in Sindh. Any nation's development leverages educated civil society. SERP in collaboration with Easypaisa seeks to empower the underprivileged young girls of Sindh. Through access to education and the awareness it brings, SERP also hopes to have alleviate poverty in the region.

Under the SERP program, Easypaisa has started providing disbursement services for stipends offered to more than 400,000 girls studying in classes 6 through 10. The objective behind this stipend is to address gender disparity in education attainment in Sindh. These girl students have been provided with specially designed ATM cards which work at Easypaisa shops and on all ATM machines installed in Pakistan. With nearly 50,000 Easypaisa shops across 800 cities in Pakistan, which are open late at night and also on weekends, beneficiaries can visit any nearby Easypaisa shop or receive stipends directly into their Easypaisa Mobile Accounts.

Prior to partnering with Easypaisa, SERP used to disburse stipends manually and suffered from a number of problems including lack of payments, lack of accountability, lack of awareness, and embezzlement of funds. Easypaisa has brought a transparent and instant process that gives SERP the confidence to resume this program after a hiatus of two years. A comprehensive daily report/MIS is provided to SERP which lets them know the status of their disbursements, thus making it easy for them to manage their records. In this way, Easy paisa provides a convenient and hassle-free solution to stipend beneficiaries as well as a cost saving solution to SERP.

The World Bank and the European Commission are also providing assistance to this program through an IDA (International Development Association) credit by the World Bank and European Commission as well. Both the development partners are emphasizing effective implementation and continuous monitoring of this program to ensure gradual achievement of agreed targets.

### Indian PM asks banks to make financial inclusion a national priority

Prime Minister Narendra Modi has asked banks to make the opening of bank accounts in 70 million households this year a national priority. The national mission on financial inclusion, called Pradhan Mantri Jan Dhan Yojana, will be launched by Modi to ensure that no one is left without a bank account. "We need to enroll over 70 million households and open their accounts. This is a national priority and we must rise to meet this challenge. There is urgency to this exercise as all other development activities are hindered by this single disability. I am sure we will overcome this situation collectively," he said. Under the financial inclusion plan, the government plans to open at least one bank account for every household. Every account will get a debit card and an accident insurance cover of Rs 1 crore initially. It will help expand direct benefits transfer on the Aadhaar platform. In the second phase, starting from August 2015, account holders will also be covered by insurance and pension products.

(Source: [http://smartinvestor.business-standard.com/market/Econews-261794-Econewsdet-PM asks banks to make financial inclusion a national priority.htm#.VCqUIGeSxDQ](http://smartinvestor.business-standard.com/market/Econews-261794-Econewsdet-PM%20asks%20banks%20to%20make%20financial%20inclusion%20a%20national%20priority.htm#.VCqUIGeSxDQ))

### Airtel, Tigo launch cross-network money transfer service in Tanzania

Bharti Airtel has announced the introduction of a service that will allow customers send and receive between Airtel's mobile money service and that of Tigo in Tanzania. The service will be available for Airtel Tanzania and Tigo customers, enabling them to experience a secure, fast and easy mode of money-transfer services between the companies' mobile money wallets. A first of its kind in the world, the service marks a significant milestone in Tanzania, benefitting mobile money customers. The announcement follows an agreement last month to adopt such interoperability by telcos beginning July 2014. It will help solve the challenges associated with financial exclusion. Interoperability describes the extent to which systems and devices can exchange data, and interpret that shared data. For two systems to be interoperable, they must be able to exchange data and subsequently present that data such that it can be understood by a user. The introduction of the service is poised to help the deepening of financial inclusion, which stood at 22 percent in 2013, according to the Bank of Tanzania. Late last year, Tanzania launched a national financial inclusion framework to focus on priorities such as payment platforms, infrastructure and consumer protection, with an overall goal of giving half of Tanzania's population access to formal financial services by 2016. Mr. Colaso added, "In addition, our Airtel Money Agents will be able to seamlessly assist our customers with 'cash in and out' transactions with ease without retrieving payment confirmation messages from customers' mobile phones. We believe the interoperability service will enhance security for agents and customers across the country."

(Source: [http://www.biztechafrica.com/article/airtel-tigo-launch-cross-network-money-transfer-se/8646/?utm\\_content=buffer4759b&utm\\_medium=social&utm\\_source=twitter.com&utm\\_campaign=buffer#.VCGL4scDqB](http://www.biztechafrica.com/article/airtel-tigo-launch-cross-network-money-transfer-se/8646/?utm_content=buffer4759b&utm_medium=social&utm_source=twitter.com&utm_campaign=buffer#.VCGL4scDqB))

### Indian operators to open up network to banks

The Indian government has convinced the country's operators to open up their USSD data channels to banks. The USSD-based service will include funds transfer, balance enquiry, change of PIN and mini statement, as well as low-value bill payments. Over the last two months, 10 operators have signed agreements with the country's National Payments Corporation of India (NPCI), the government-backed payments gateway. "The primary reason for the delay in setting up this infrastructure was the apprehension of telcos that their business will be affected if they provide the USSD channel to the banking system," said AP Hota, MD & CEO of NPCI. Users will be charged INR1.50 (2.5 US cents) for each transaction. He added the charges now reflected operator's costs. While the banks will handle areas such as quality of service and customer care, the operators just provides access, he added, in line with Trai's (India's Telecom regulator) mandate. Where the USSD-based services are significant is that, unlike existing mobile wallets, they enable inter-bank transactions. For instance, a subscriber to one mobile operator can send money from their bank account to the account of a subscriber with a rival operator. Mobile wallets are standalone accounts, which are separate from the accounts held by users with their banks.

(Source: <http://www.mobileworldlive.com/indian-operators-open-network-banks>)

### Interview with Mr. Arif Sirhindi – CEO of U-Microfinance Banks and U-Paisa

*Mr. Arif Sirhindi comes with over three decades of banking experience in various national and international commercial banks including Askari Bank, KASB and BCCI. At his current position as CEO of U-MFB, Mr. Sirhindi has led the conversion of a district level microfinance bank (Rozgar Microfinance Bank) to a nationwide fully functional bank with the name of 'U Microfinance Bank'. Under his leadership, the microfinance bank deployed the branchless banking system for which the microfinance bank received international recognition. In addition, Mr. Sirhindi conceived the idea of collaborating with the established financial institutions like NBP and ZTBL to provide their customers with branchless banking solution to enhance the access to finance across Pakistan.*



1. Can you share with us the thought process behind the decision to set up U- Microfinance bank and U-Paisa?

**AS:** PTCL conceived the idea to enter into the arena of microfinance and branchless banking. This idea was based on certain studies by the international agencies including DFID and the World Bank. The studies demonstrated that almost 88% of Pakistan's population was without access to financial services, hence, a huge market.

This was perceived as an opportunity to enter into one of the fastest growing industries in the country. PTCL and its cellular arm, Pakistan Telecom Mobile Limited (Ufone) have presence across Pakistan, particularly in the rural areas where most of the unbanked community resides. Hence, both the companies aimed not only to extend the outreach of financial services through their networks but through innovation, and employment of advanced technologies, aimed to revolutionize the concept of banking through mobile phone. This led to the formation of U Microfinance Bank and the branchless banking services brand, UPaisa.

2. What technological platform has U-Paisa adopted and why? As one of the newest player in the industry, how is U-Paisa different than the competition?

**AS:** Upaisa team selected SAP's Money Mobiliser Platform (Sybase 365) to launch the branchless banking services in Pakistan. Sybase is considered to be one of the best suppliers of branchless banking platforms globally with highest number of Mobile Financial Deployments in the world. It was rated the best platform by various rating agencies including Gartner. The deployment of world leading platform gave a strong competitive edge to the Upaisa Business. The platform provided many pre-built easy to use interfaces which enabled the bank to integrate with many other technology platforms in the shortest span of time including integration with USSD, SMSC, 1LINK, Nadra, U-top-up etc. The system has helped to launch more customer focused products in market with greater ease. Debit Card is one such example where the Ubank has an edge as a branchless banking provider offering Debit Cards in the Pakistan market at present.

3. What strategies have been adopted to increase the agent network at a rapid rate and is there a formulated strategy to expand exclusive U-Paisa agents?

**AS:** The success of branchless banking depends upon availability of the service to the customer. The retail network is reviewed at regular intervals by the Bank and Ufone. We shall also consider adding extra features to facilitate the customer at selective retailers initially like account opening etc.. The expansion strategy of the agent network is based on efficient cash management operations, a dedicated 24/7 helpline for retailers and provision

of ATM / debit cards to retailers for ease of cash withdrawals and managing liquidity. Further, we consider that certain central collection places like public transport stands can also be utilized to facilitate people for branchless banking services. In order to increase access to finance and ensure financial inclusion in remote parts of the country, U-Paisa team aims to increase retail network in the rural and far flung areas of the country.

4. U-Paisa rolled out debit cards to enable BB customers and agents to carry out cash withdrawals through ATMs. Can you shed some light on this innovation and how it offers value addition for customers and aids liquidity constraints of agents?

**AS:** We have always envisioned the UPaisa Mobile Wallet as the complete banking solution for consumers. This will result in ease of use and convenience to the customers. If a consumer has facilities like debit card, withdrawing cash from all 1-Link ATMs and purchasing at Union Pay International powered shops, the customers shall be in a position to withdraw cash and shopping at their will. Coupled with inter-bank funds transfer facility, the customers can consider mobile wallet as full-fledged conventional banking alternative. Furthermore, in large urban cities, commercial districts, shopping malls etc. customers would find it convenient to locate ATMs. Therefore, it is expected that the UPaisa debit card further adds to the convenience of mobile wallet holders. The network of agents is central to the success of branchless banking services and management of liquidity of agents is one of the primary concerns for all service providers. As our customer base grows and more debit cards come into use, the burden of liquidity of agents to facilitate cash withdrawals is diluted by the network of approx. 7000+ 1-Link ATMs across all major cities of Pakistan. In addition, UPaisa is a member of IBFT facility. This enables the agents to directly feed their Mobile accounts from other Banks accounts.

5. Since there is lot of focus of existing players on OTC transactions, how is U-Paisa proposing to grow its m-wallets?

**AS:** This is a tricky and tough question to answer. In short run, due to huge demand in the market, customers shall use whatever facility they have in vicinity of their homes or business place. However, we consider that in long run, the customer's satisfaction shall play pivotal role. This shall be ensured by UPaisa through constant innovation focusing to serve everyday need of the consumers. UPaisa is aiming to grow mobile wallets by adding options related to purchase of different products including bus and airline ticketing. Further, customers shall be able to use Inter-bank funds transfer facility from mobile wallets. They will be able to send and receive money through wallets and make donations to certain organizations too. Hence, utilization of mobile wallets shall be dependent on a customer who shall use only when he or she is convinced that this is an alternate to conventional branch banking and offer ease of utilization.

6. Can you share your perspective on the growth in G2P payments and how U-Paisa sees it as a potential area of focus?

**AS:** With recent payment mechanism established in the country for providing aid to IDPs displaced, it is expected that the Government wants to bring in transparency and speed in funds transfer to the people. Payment of pensions has been an area where branchless banking will play a huge role in time to come. Old people will be able to draw pensions from nearby retailers instead of standing into queues all day. Further, payments of scholarships or loans by the government to beneficiaries are the areas which are expected to move towards branchless banking in time to come. As UBank has signed memorandum of understanding with the National Bank of Pakistan (NBP), we expect to provide branchless banking services to the pensioners through collaboration with NBP.

7. How do you see the mobile money ecosystems evolving and which areas would you forecast to be the biggest for growth?

**AS:** It depends on the need of customer. If the branchless banking players are able to create mobile wallets by including retail payments, it might be one of the biggest areas for growth. Youngsters feel more comfortable to use mobile phone at all places. If a family is at a restaurant and the owner of the restaurant is accepting payment through mobile phone, it can bring a lot of people in the ecosystem of branchless banking.

Another area which offers potential for growth relates to online shopping. As the penetration of credit card is low in Pakistan, consumers, particularly youngsters often look into practical alternatives. If they are able to make online payments through branchless banking, they would consider using mobile wallets with more frequency. One of the big areas for branchless banking is foreign currency remittances. There are many Pakistanis who are working hard abroad. Once they remit money, instead of drawing it through traditional bank account, a person can draw the same through branchless banking channel. This will help a person to draw cash when needed from

retail agent instead of drawing all the cash at once from the branch. Thus, this also offers a huge area of growth in time to come. Providing branchless banking facilities to existing financial institutions is another area which has great potential. These partnerships not only further extend the branch network or access points but also provide great potential for agent liquidity and additional revenues.

8. How is the launch of 3G and 4G services going to augment U-Paisa's BB services?

**AS:** The present system of branchless banking relies of the cellular networks of telecommunication companies, particularly the USSD channel. With the launch of 3G and 4G services it is expected that there will be a technology shift from cellular to data based channels. This shift, combined with the ever increasing adoption of smartphones by consumers, could open up a whole new area of potential services such as integration with internet based payment systems and service providers. This will also lead in utilization of mobile phone applications and hence, increase in network of retailers.

9. In the race to achieve highest account and transaction numbers, there is often a lack of emphasis on customer protection. Has U-Paisa addressed consumer protection and complaint redressal issues as a priority?

**AS:** At the end of the day, a happy customer is the customer which results into loyalty. Hence, customer is at the centre stage all the time. UPaisa firmly believes in consumer protection and compliant redressal. There is a detailed policy for the same at the Bank. Further, there are certain turnaround timelines to address consumer complaints. A 24/7 dedicated call centre and the operations staff ensures that customers' concerns are fully and adequately addressed.

10. In today's changing dynamics, how has the role of Telco's redefined in terms of financial inclusion and what further developments do you see on the horizon in coming years?

**AS:** Traditionally, telecom companies have been involved in voice business or providing value added services like SMS etc. However, with advent of 3G services, it is expected that usage of data based services like mobile internet shall grow. More and more people now use social networking sites like face book and twitter than ever before. This has led telcos to develop data hungry mobile applications like application store, online stores etc. In time to come, we may see mobile applications which will lead towards financial inclusion. Telecom companies shall focus on those services which will help a consumer to consume more data through mobile phone, branchless banking being one of them.

## 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)).
Person to person transfer	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.



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