

QUARTERLY  
**Branchless  
Banking**  
NEWSLETTER

Jul-Sep 2016

Issue 21



Leveraging Technologies and Partnerships  
to Promote Financial Inclusion

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**STATE BANK OF PAKISTAN**

Agricultural Credit and Microfinance Department

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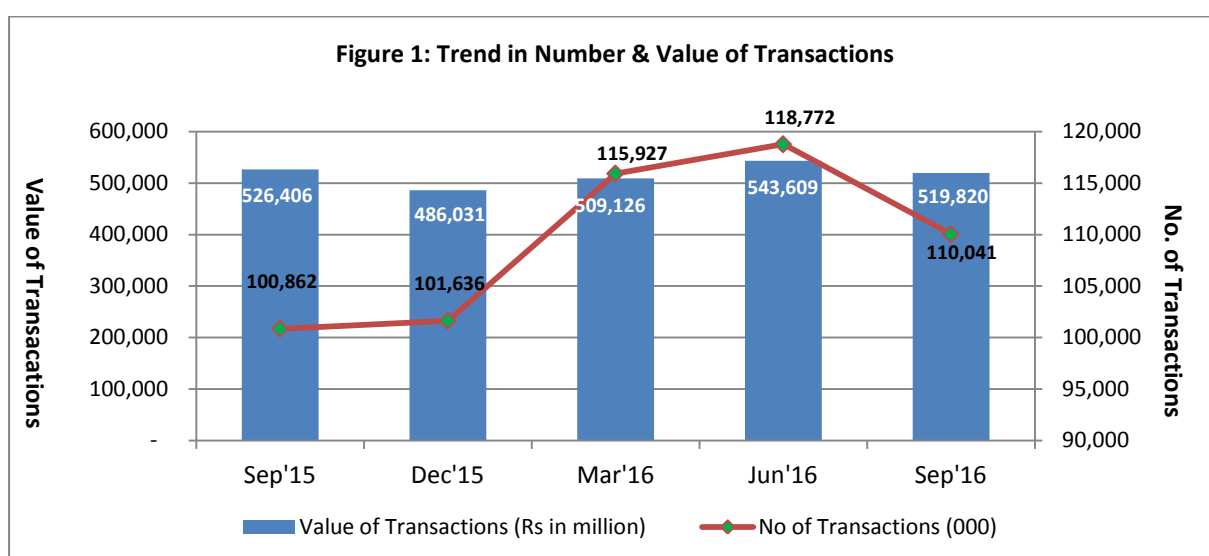
## Branchless Banking Analysis

### Executive Summary

The number of Branchless Banking accounts of the industry increased to 16.9 million from 14.6 million, showing a 16% growth during the quarter under review. On the other hand, number of transactions decreased to 110.0 million during Jul-Sep 16 from 118.8 million in previous quarter. The major decline in the number of transactions was seen in OTC transactions, due to delay in bulk G2P payments.

BB deposits also decreased to Rs. 8.5 billion from Rs. 13.7 billion, showing a decrease of 38% compared to previous quarter. The average deposits per account dropped to Rs. 500 at the end of current quarter from Rs. 942 over the previous quarter due to sharp increase in the number of accounts and seasonal outflow related to Eid festivities falling in the month of September 2016.

As a result, the number and value of transactions witnessed a reduction which may be transitory in nature and likely to improve in the next quarter.



In terms of gender representation, the number of female customers increased to 3.3 million during Jul-Sep16 from 2.0 million at the end of previous quarter. As a result, the share of female accounts increased to 20% out of the total 16.9 million mobile accounts.

## Branchless Banking Analysis

**Table 1: BB Key Indicators**

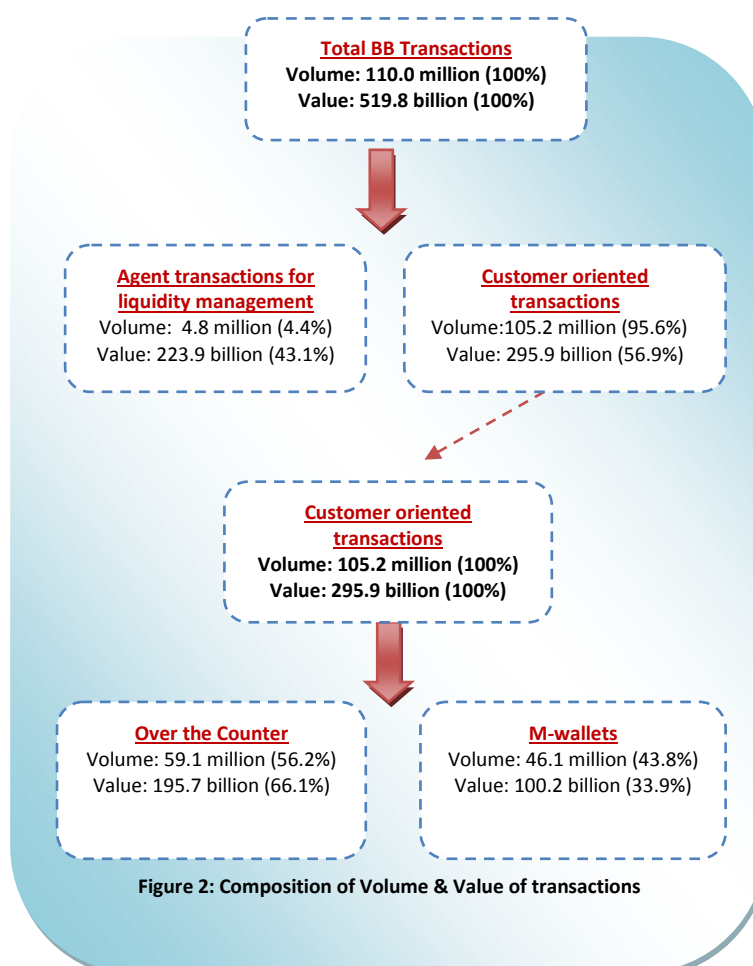
Indicators	Apr-Jun 2016	Jul-Sep 2016	Quarterly Growth
Number of Agents	346,716	351,912	1.5%
Number of Active BB Agents	236,874	210,536	-11.1%
Number of Accounts	14,576,387	16,905,696	16.0%
Active Accounts	6,693,559	7,716,320	15.3%
Deposits as of date (Rs. in millions )	13,734	8,457	-38.4%
Number of transactions during the quarter (No. in '000')	118,772	110,041	-7.4%
Value of transactions during the quarter (Rs. in millions)	543,609	519,820	-4.4%
Average Size of transaction (in Rs.)	4,577	4,724	3.2%
Average number of transaction per day	1,319,684	1,222,678	-7.4%

### Delayed BISP tranche affects BB transactions, both in volume and value

The average size of transaction grew by 3.2% during the quarter, however, the growth was slower in BB transactions, registered at 110.0 million (in volume) and Rs. 519.8 billion (in value), showing a decrease of 7.4% and 4.4%, respectively over the previous quarter. As the delayed payment of BISP tranche, resulting Person to Person fund transfer decreased by 1.7 million, G2P through Card 3.1 million and Cash Withdrawal through Card by 3 million in terms of volume. Further, the values in the same heads were also decreased by Rs. 13 billion, Rs. 6 billion and Rs. 3.6 billion, respectively. However, the situation is expected to improve in the subsequent quarters.

Figure 2 illustrates break down of BB transactions into agent transactions for liquidity management and customer oriented transactions which stood at 4.8 million (4.4%) and 105.2 million (95.6%), respectively.

The customer oriented transactions are further segregated into OTC and m-wallet transactions which remained at 59.1 million and 46.1 million in volume, enjoying a share of 56.2% and 43.8%, respectively. A continuous shift from OTC to m-wallet transactions have been witnessed, as the ratio improved to 56:44 from a 70:30 in Q2-CY15 due to improved product offerings.



**Figure 2: Composition of Volume & Value of transactions**

## Branchless Banking Analysis

### Increasing trend continues in m-wallet channels

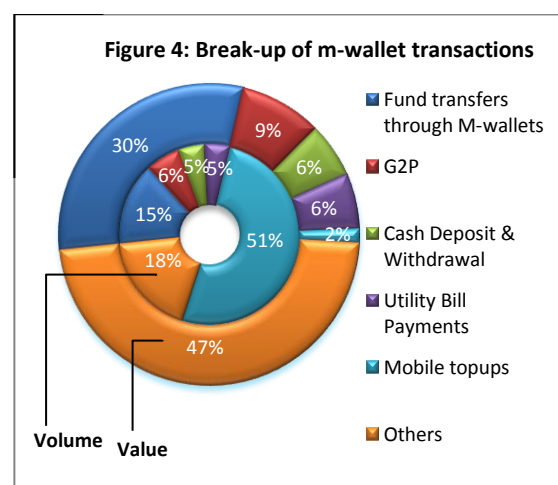
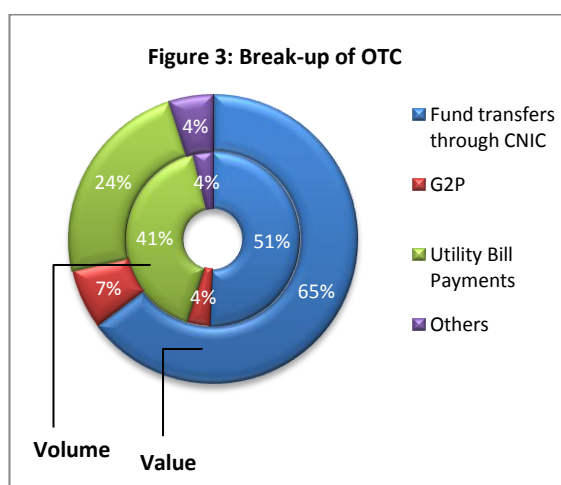
The m-wallet to OTC ratio, which is the ratio between number of m-wallet & OTC transactions, increased to 44% from 39% in the current quarter. This means that out of every 100 customer oriented transactions, 44 are made through m-wallets and the remaining are through the OTC channel. It was observed that m-wallet transactions increased by 1.5 million while OTC transactions decreased by a 9.8 million during the quarter. The decline in OTC transaction was mainly due to reduction in G2P payments, Person to Person fund transfer and withdrawals through cards. Similarly, the agent liquidity transactions also went down by 9%. The decline in number of transactions was witnessed amongst all market players, except Jazzcash, HBL Express and MCB Lite.

### Customer-oriented transactions-mainly deceleration in OTC transactions

The customer oriented transactions (which are comprised of OTC & m-wallet transactions and exclude agent transactions for liquidity purpose), witnessed a decrease of 8.0 million in volume and Rs. 30 billion in value, during the subsequent quarters.

The decrease in volume and value were transitory in nature mainly attributed by delayed receiving of BISP tranche during the recent quarter. Therefore, negative effect on volume and value of these transactions, likely to improve in the next quarter.

The share of OTC transactions in overall number and value of customer transactions remained high. However, ratio of OTC transactions in over all customers' transactions decreased by 14% compared to last quarter.



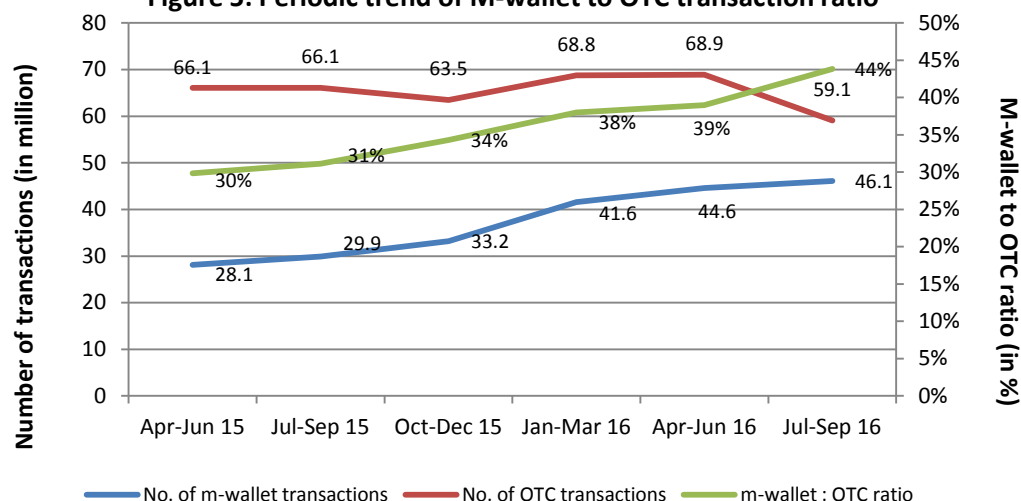
As Figure 3 illustrates above, the breakup of OTC transactions shows that fund transfer through CNIC and utility bill payments are dominant in terms of both number and value of transactions. Figure 4 illustrates the breakup of m-wallet transactions, 51% of transactions contributed by Mobile top ups and 15% by fund transfer through m-wallets. While the value of m-wallet transactions were dominant by fund transfer through m-wallets and G2P.

### Witnessing a shift from OTC to m-wallet transactions

Figure 5 illustrates, significant growth in m-wallet and OTC transactions between the period Jul-Sep 15 and Jul-Sep 16. The OTC transactions have shown a deceleration of 14% in current quarter. Whereas m-wallet transactions have moved encouragingly from 29.9 to 46.1 million (54.2%) during the same period.

## Branchless Banking Analysis

**Figure 5: Periodic trend of M-wallet to OTC transaction ratio**

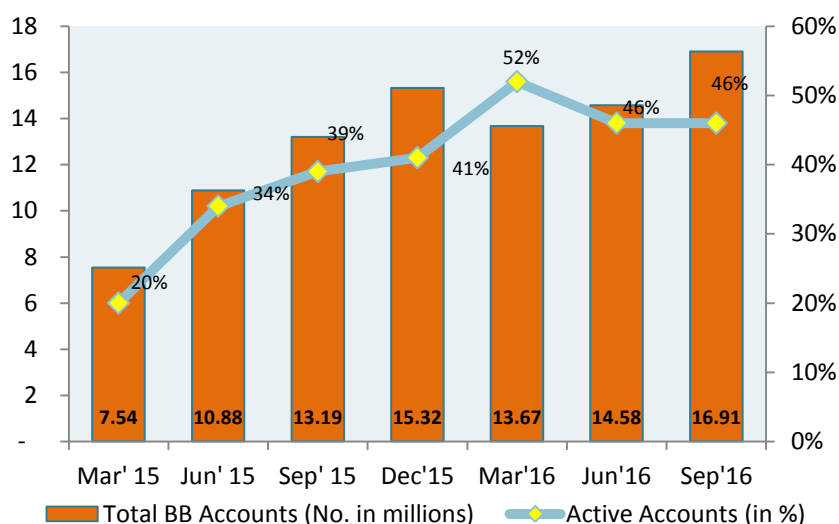


### Consistent growth in BB Accounts

During the quarter under review, 2.4 million new accounts were opened, taking the total number of BB accounts to 16.9 million. BB accounts are gradually being accepted and have shown growth of 124% since Mar-15 to quarter under review, as depicted in Figure 6.

The activity in BB accounts showed consistent growth since Q1-CY15 and reached peak of 52% before declining to 46% in Q2-CY16, (Figure 6). All BB players need to focus on more value added services in their products offerings to maximize digital financial services.

**Figure 6: BB Account Activity**



**Table 2: Player-wise Comparison - Total vs Active Accounts**

BB Player	% in Total BB Accounts	% in Active BB Accounts
Easypaisa	48%	40%
Jazzcash	35%	41%
Omni	13%	15%
Others	4%	4%

The BB market is getting more competitive, due to the competition among the top three players. The player-wise ranking in accounts did not see any major change; however, Jazzcash

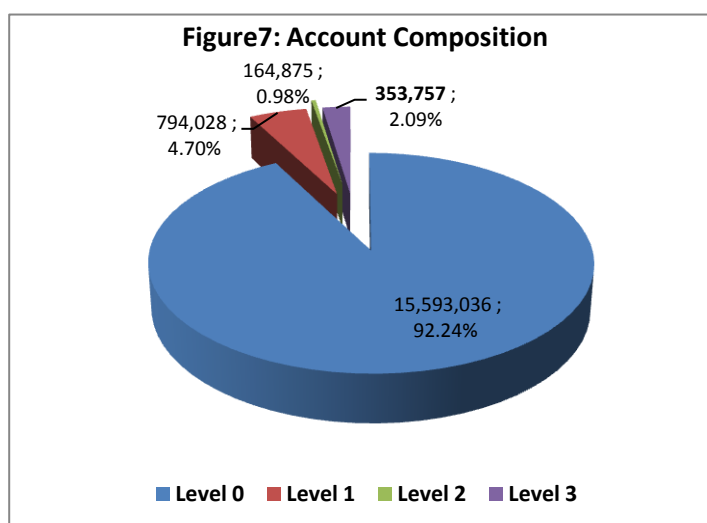


## Branchless Banking Analysis

improved 2% points in total BB accounts and 5% points in active BB accounts during the quarter under review. The stretching of Jazzcash interms of accounts and active accounts were due to availability of additional infrastructure through merger of Warid Telecom with Mobilink.

### BB Account mix remains concentrated by three key BB players

Figure 7 illustrates the distribution of different levels of BB accounts. Out of the total 16,905,696 BB accounts; <sup>1</sup>Level 0, 1, 2, and 3 constitute 92.24%, 4.70%, 2.09% and 0.98%, respectively. The players also need to enhance the share of Level 1 and Level 2 Accounts in BB accounts composition.



### Geographic concentration remains unbroken

The overall BB accounts have increased by 16% compared to previous quarter. The number of BB accounts has increased in all provinces ranging between 8%-19% except a 36% fall in GB Province. The BB players need to increase their account portfolio in those geographies where basic banking infrastructures are not available. The table 3 shows, total share of BB accounts in GB, AJK and Baluchistan is 0.2%, 1.8% & 2.9%, respectively.

**Table 3: Province-Wise BB Accounts**

Name of Province/Region	Number of BB Accounts	% in Total
GB	38,967	0.2%
AJK	304,418	1.8%
Baluchistan	482,942	2.8%
KPK	3,020,098	17.9%
Sindh	3,484,203	20.6%
Punjab	9,575,068	56.7%
<b>Total</b>	<b>16,905,696</b>	<b>100.0</b>

### Gender-mix of BB accounts shown an encouraging growth in Jul-Sep 16

In terms of gender representation, the number of female customers increased to 3.3 million during Jul-Sep16 from a 2.0 million at the end of previous quarter but they still lag behind male customers. Out of total 16.9 million mobile accounts, 20% of accounts are represented by female. In overall accounts portfolio, the female accounts ratio in Sindh, KPK, Baluchistan and Punjab is 26%, 25%, 22% and 16% respectively. However, in absolute numbers Punjab and Sindh Provinces have 45% and 27% female representation in total number of female accounts.

<sup>1</sup> Level 3 account has been merged in Level 2 account, under the New BB Regulations.

## Branchless Banking Analysis

### Status of G2P portfolio

A total of Rs. 16.16 billion were disbursed among 5.14 million beneficiaries during the quarter. Total disbursements decreased by 27% during the quarter. BISP remained the major contributor by disbursing Rs. 12.8 billion to 4.58 million beneficiaries, whereas Rs. 2.3 billion were disbursed to 78,099 beneficiaries on account of internally displaced persons payments.

**Table 4: Break-up of G2P Disbursements**

Program	Beneficiaries	Amount disbursed during the Quarter
BISP	4,584,164	12,836,138,900
World Food Program	304,077	365,186,250
IDP Payments	78,099	2,326,372,837
EOBI Pensioners	48,795	213,939,150
Others	122,465	416,906,519
<b>Total</b>	<b>5,137,600</b>	<b>16,158,543,656</b>

### Decrease in BB deposits

BB deposits stood at Rs. 8.5 billion at the close of current quarter, decreasing from Rs. 13.7 billion, showing a decrease of 38% in the previous quarter. It was observed that 66% BB deposits of Easypaisa and 30% BB deposits of UBL Omni have been withdrawn during the quarter. The high reduction in deposits was also due to seasonal outflow related to Eid festivities falling in the month of September 2016. Average deposits per account dropped to Rs. 500 at the end of current quarter from Rs. 942 over the previous quarter due to increase in number of BB accounts and seasonal outflow of deposits.

The Easypaisa, Jazzcash and Omni have a market share of 96% in overall BB deposits, while Easypaisa and Jazzcash have 83% in the overall BB accounts of the industry. Considerable effort is required from all players to tap into the potential customers and venturing in other market segments for raising deposits.

**Table 5: Average Deposits in BB Accounts**

Account type	Apr-Jun 16 Rs.	Jul-Sep 16 Rs.
BB Level 0	819	424
BB Level 1	967	423
BB Level 2	3,494	1,022
BB Level 3 (Agents)	5,251	3,780
<b>Average BB Deposits</b>	<b>942</b>	<b>500</b>

### The financial access points continues to expand

The country-wide agent network of BB players increased to 351,912 from 346,716, showing a growth of 1.5% during current quarter. The growing trend in agent's network enhanced the access to basic financial services for unserved/underserved populace and also increases fair competition among the players bringing further efficiency and better quality of services.

The Easypaisa held the market share of 30% of agents, while Jazzcash and Upaisa held 18% and 13% of market share, respectively. The remaining BB players need to activate the existing agents' infrastructure for promoting BB transactions including opening of new accounts, transfer of funds and raising deposits. HBL Express, Timepay and Mobilepaisa need to put more efforts for utilizing agent network for BB activities.



## Branchless Banking Analysis

### Decline in Agent activity ratio during the quarter

The number of active agents decreased to 210,536 during current quarter from 236,874 compared to previous quarter. The agent activity ratio decreased to 60% in current quarter from 68% in the previous quarter, implying that 40% of agents remained inactive during the quarter Jul-Sep 2016.

The major reason for this deceleration is that, agents of Mobilepaisa reduced their activity due to merger of Warid telecom (super agent of Bank Alfalah) with Mobilink. Now, Bank Alfalah is in the process of getting service level agreement (SLA) with Telenor as its super agent.

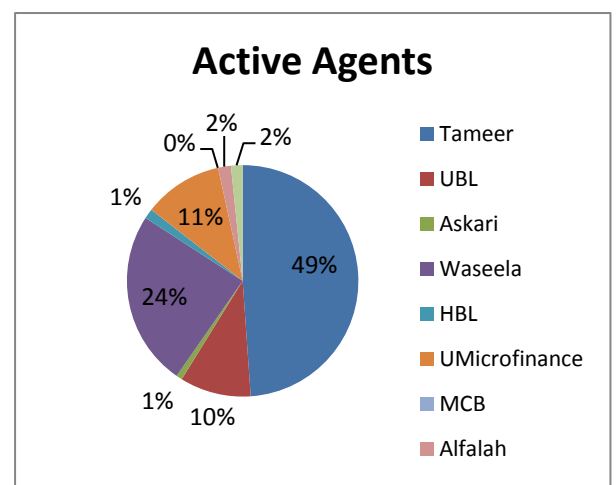
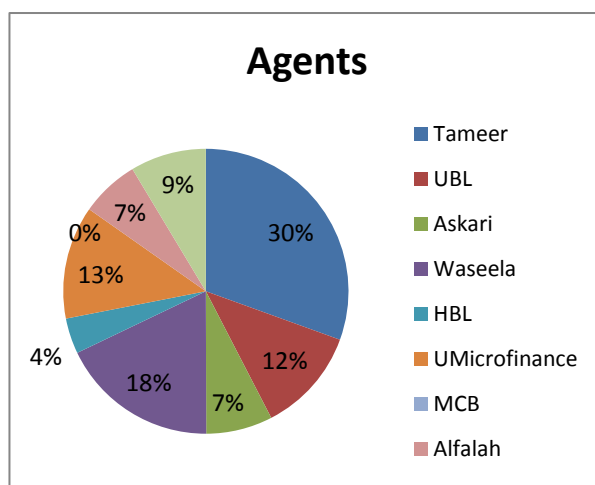
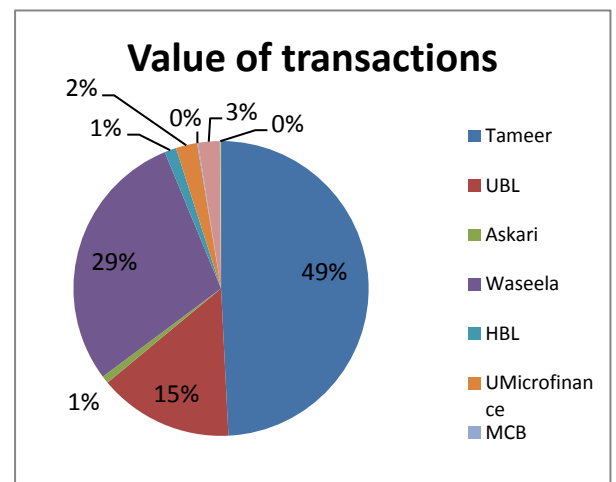
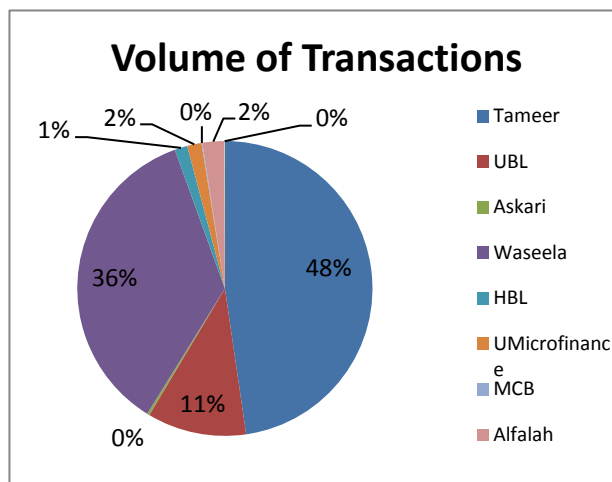
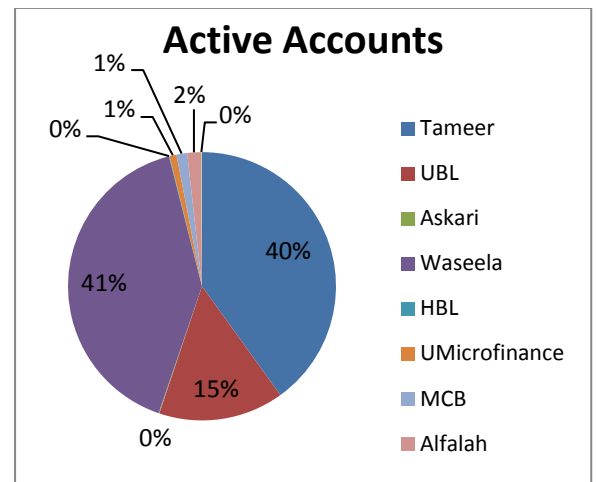
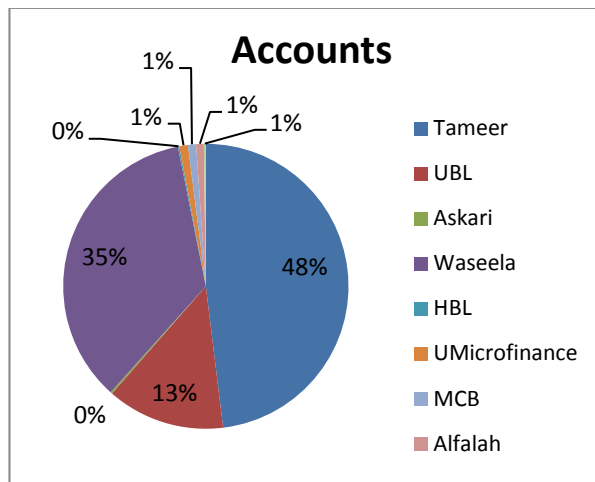
**Table 6: Agent locations with account opening capability**

	Apr-Jun 2016	Jul-Sep 2016
Easypaisa	23.2%	23.2%
Omni	100.0%	100.0%
Timepey	4.5%	4.5%
Jazzcash	52.9%	51.6%
HLB Express	86.7%	86.8%
Upaisa	2.8%	2.8%
Mobilepaisa	1.5%	1.5%
Meezan Upaisa	-	-
<b>Total</b>	<b>32.6%</b>	<b>32.5%</b>

Table 6 shows the capability of agents to open BB accounts, the account opening capability of BB players slightly decreased from 32.6% in the previous quarter to 32.5% during the quarter Jul-Sep 2016.

## Player-wise market share

This section presents the market share of each player in the categories mentioned below:



## Branchless Banking Snapshot

**Table 7: Volume & Value of different types of transactions**

S.#	Type of Transactions	Apr-Jun 2016		Jul-Sep 2016	
		Volume of Transactions (Numbers)	Value of Transaction	Volume of Transactions (Numbers)	Value of Transactions
<b>1</b>	<b>Agent transfers for liquidity</b>				
	Agent account to agent account	4,452,485	114,515,758,738	4,105,124	124,269,804,730
	Agent account to bank account	118,277	7,112,364,466	111,720	4,551,062,069
	Bank account to agent account	410,660	78,407,704,809	395,160	82,202,913,401
	Cash Deposit in L3 by agents <sup>2</sup>	310,563	14,591,438,229	229,379	12,946,071,941
<b>2</b>	<b>Fund Transfers</b>				
	a. <i>Fund transfers through M-wallets</i>				
	MW to MW transfers	4,974,073	22,055,157,350	5,463,272	21,470,405,619
	MW to bank account transfers	94,977	697,416,493	205,261	3,919,118,049
	Bank account to MW transfers	34,105	675,261,546	32,627	670,846,625
	MW-to-person fund transfers	1,765,994	5,474,136,946	1,190,111	4,339,779,726
	b. <i>Fund transfers through CNIC</i>	-	-	-	-
	Person to person sending	15,306,716	69,658,757,154	14,810,651	62,791,811,764
	Person to person receiving	16,341,339	70,473,044,949	15,133,523	63,931,471,829
<b>3</b>	<b>Bulk Payments</b>				
	a. <i>Government to Person Payments</i>				
	G2P through MW	2,067,922	8,189,838,677	2,896,396	8,847,171,993
	G2P through card	4,214,200	11,050,878,950	1,024,466	4,749,826,971
	b. <i>EOBI Pensioners</i>				
	Pension payment through MW				
	Pension payment through OTC				
	Salaries payments and Others	97,932	1,297,729,854	87,504	963,885,317
<b>4</b>	<b>Cash deposit &amp; withdrawal</b>				
	Cash Deposited in MW (including person to MW transfers)	7,157,026	36,875,593,581	7,087,867	32,692,625,648
	Cash Withdraw from MW	5,059,041	25,716,978,530	2,904,093	12,755,166,588
	Cash withdraw through card (G2P)	4,555,634	12,045,747,392	1,480,826	8,385,617,837
<b>5</b>	<b>Bill payments &amp; Top-ups</b>				
	Utility Bills Payment	28,036,801	44,835,605,863	26,592,886	52,045,805,440
	Internet Bill Payments	200,414	309,408,235	219,529	437,457,537
	Mobile Top-ups	21,843,585	1,464,420,017	24,176,194	1,664,406,934
<b>6</b>	<b>Loan</b>				
	Disbursement	1,495	9,395,212	226	2,248,562
	Repayment	887,461	4,772,175,156	1,063,351	4,814,595,642
<b>7</b>	<b>Others</b>				
	Donations	4,526	21,412,855	8,154	1,442,488
	Retail Payments	140,064	332,107,754	164,791	325,620,364
	International Home remittance	19,657	599,888,328	23,413	710,073,878
	Account Opening Transactions	30,617	6,422,173	48,908	10,112,430
	Cash collection/payment services	276,172	3,165,855,157	178,735	3,453,753,693
	IBFT	369,810	9,254,056,098	406,833	6,867,300,791
	<b>Total</b>	<b>118,771,546</b>	<b>543,608,554,512</b>	<b>110,041,000</b>	<b>519,820,400,866</b>

<sup>2</sup> The accounts of L3 have been merged in L2 in the New BB Regulations.

## Branchless Banking Snapshot

**Table 8: Customer Transaction 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	-	-	5,463,272	21,470,405,619
MW to bank account transfers	-	-	205,261	3,919,118,049
Bank account to MW transfers	-	-	32,627	670,846,625
MW-to-person fund transfers	-	-	1,190,111	4,339,779,726
Person to MW fund transfer	14,209	40,397,895	-	-
<b>Fund transfers through CNIC</b>				
Person to person sending	14,810,651	62,791,811,764	-	-
Person to person receiving	15,133,523	63,931,471,829	-	-
<b>Bulk Payments</b>				
<b>Government to Person Payments</b>				
G2P through MW			2,896,396	8,847,171,993
G2P through card	1,024,466	4,749,826,971	-	-
<b>EOBI Pensioners</b>				
Pension payment through MW				
Pension payment through OTC				
Salary payment and Others	-	-	87,504	963,885,317
<b>Cash deposit &amp; withdrawal</b>				
Cash Deposited in MW (excluding person to MW transfers)	-	-	7,073,658	32,652,227,753
Cash Withdrawal from MW	-	-	2,904,093	12,755,166,588
Cash withdrawal through card (G2P)	1,480,826	8,385,617,837	-	-
<b>Bill Payments &amp; Top ups</b>				
Utility Bills Payment	24,486,461	46,100,884,245	2,106,425	5,944,921,195
Internet Bill Payments	196,102	411,643,975	23,427	25,813,562
Mobile Top-ups	574,462	101,313,218	23,601,732	1,563,093,716
<b>Loan</b>				
Disbursement	226	2,248,562	-	-
Repayment	1,051,234	4,754,600,591	12,117	59,995,051
<b>Others</b>				
Donations	427	167,540	7,727	1,274,948
Retail Payments	114,650	220,657,228	50,141	104,963,136
International Home remittance	22,891	700,054,267	522	10,019,611
Account Opening Transactions	48,908	10,112,430	-	-
Cash collection/payment services	169,986	3,431,397,276	8,749	22,356,417
IBFT	-	-	406,833	6,867,300,791
<b>Total</b>	<b>59,129,022</b>	<b>195,632,255,628</b>	<b>46,070,595</b>	<b>100,218,340,097</b>

## Events

### **AC&MFD launches Capacity Building initiative for Branchless Banking Agents**

The Branchless Banking (BB) agents are playing an important role in promoting financial inclusion by providing basic financial services to the previously excluded segments of society. Agents are facilitating banking transactions on behalf of banks; however they possess little or no prior knowledge of the risks associated with conducting branchless banking transactions. This situation demands to build their capacity in their respective area of operation. Agricultural Credit & Microfinance Department, in consultation with the Branchless Banking providers, prepared a standard curriculum which will serve as the minimum benchmark for the banks to train their countrywide agents network. This initiative is envisioned to enhance quality and service delivery of agents, besides making them aware about the associated risks and related mitigants.

The launch ceremony of Train the Trainer session on “Capacity Building initiative for Branchless Banking Agents” held at SBP BSC Lahore on 31-Oct-2016 in which participants from banks were trained on the standard curriculum; who will further impart training to their respective agents.



### **Second Easypaisa Mobile Commerce, E-banking Summit, Expo on October 20, 2016**

The second annual Easypaisa Mobile Commerce, E-banking Summit & Exhibition held on October 20, 2016. The event was organized by The Professionals Network. The event was inaugurated by Mr. Saeed Ahmed, Deputy Governor State Bank of Pakistan. He emphasized that digital technology and mobile phones has the potential to resolve the long standing issue of financial exclusion. Further, the digital financial services can serve to reduce transaction costs, increase transparency, and accelerate access, usage and quality of formal financial services. This conference and exhibition served as a unique platform for bringing together both industry stakeholders and the general public to discuss the key issues and experience the importance and need for banking and commerce through mobile/Branchless Banking (BB).

The event indeed provided opportunities for local and global networking for overall success of individual company's operation in Pakistan and means to the international community whom are associated with these sectors.



## Events



### **BOP, FINCA sign MasterCard affiliate Programme**

FINCA Microfinance Bank and the Bank of Punjab signed an agreement on the MasterCard affiliate membership. The program enables the Bank of Punjab - a premier MasterCard partner - to extend its MasterCard license to FINCA MFB, thereby becoming the first such affiliation in the country. This milestone enables FINCA to extend state of the art MasterCard services to its customers, while maintaining a low cost footprint. Through this affiliate license by BoP, FINCA would issue MasterCard branded debit cards to its core banking as well as branchless banking customers. The deal also allows BOP and MasterCard to strengthen relationships while adding to their respective business portfolios. This move was in line with the SBP's vision of National Financial Inclusion Strategy-2020.

<http://dailytimes.com.pk/business/23-Nov-16/bop-finca-sign-mastercard-affiliate-programme>

### **Transfer Money to Any Mobile Network through Easypaisa**

In pursuing the financial inclusion objectives, Easypaisa has introduced money transfer from Easypaisa Account to any mobile number. With this new service launched, they now are enabled to send money to any verified mobile number anytime, anywhere in the most secure and convenient way. This will further increase financial access, as the receiver can instantly open an Easypaisa Account and receive the money.

The process to transfer funds to any mobile number is simple. Easypaisa user simply dials \*786# and selects the 'Money Transfer' option. The customer then chooses the 'Send to Any Mobile' option and enters receiver's mobile number and the transfer amount, followed by the Easypaisa Account PIN to complete the transaction. In case the receiver doesn't have an Easypaisa Account, the money transfer notification will prompt them to open one straightaway and receive payments in that account instantly.

[https://www.google.com/search?q=afi+news&oq=afi+news&sourceid=chrome&espv=2&es\\_sm=93&ie=UTF-8&qws\\_rd=ssl#tbm=nws&q=financial+inclusion+branchless+banking+news](https://www.google.com/search?q=afi+news&oq=afi+news&sourceid=chrome&espv=2&es_sm=93&ie=UTF-8&qws_rd=ssl#tbm=nws&q=financial+inclusion+branchless+banking+news)



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### **Mobile banking seen to overtake Internet transactions**

Malayan Banking Bhd (Maybank) expects the number of mobile banking transaction numbers to soon overtake Internet banking transactions in line with global trends. Maybank's head of enterprise architecture and strategy Meraj M Khan told that people increasingly preferred to use mobile devices and this trend was seen in the west. "In countries such as the US or Sweden, mobile banking is growing beyond Internet banking wherein transactions actually originate from mobile banking, while in countries such as Malaysia we are still a predominantly internet banking transactors". He said that the trend will soon catch up in Malaysia and that there was a need for banks to put in place adequate infrastructure to keep up with these developments. He also said that it is likely that costs for mobile banking could drop as adoption rates raise further.

### **Visa and Ecobank to bring low cost digital payments across Africa**

Visa has partnered with Pan African bank, Ecobank, to roll out mVisa, an innovative mobile payment service, in 33 African markets by year end. The service will be initially launched in the key markets of Nigeria, Ghana, Kenya and Tanzania and signals Visa and Ecobank's ambitions to successfully enable mVisa across Sub-Saharan Africa. Being one of the first banks in Nigeria to partner with Visa, Ecobank provides, through mVisa, service to Nigerian customers and merchants. mVisa allows consumers to pay for goods and services for everyday expenses from bill payments to groceries and taxi services, by simply scanning a QR code on a smart phone or entering a merchant identification number into their feature phones. mVisa addresses the need for a convenient, low cost acceptance payments service throughout the continent. The informal sector contributes about 55 per cent of Sub-Saharan Africa's GDP which is largely cash based. With mVisa, merchants are now able to receive electronic payments in a cost-effective way, without the need for point-of-sale terminals. They can receive payments directly into their bank accounts, within minutes of the consumer making a payment and provides real-time notification to both parties. Unlike other mobile payment services mVisa can also handle refunds and charge backs, so if a merchant needs to refund a consumer, mVisa can facilitate this. Consumers can also make payments to other individuals (person-to-person or P2P) and Ecobank's branchless banking agents will be able to do cash-in-cash-out transactions across the region.

<http://www.itnewsafrika.com/2016/11/visa-and-ecobank-to-bring-low-cost-digital-payments-across-africa/>

### **Reforming mobile sector taxation can promote investment and drive digital inclusion in Colombia**

Excessive tax burdens on the mobile sector create an affordability barrier for Colombians wanting to use mobile services, according to a new GSMA study developed by Deloitte. Affordability is a key challenge for the unconnected, especially for the poorest segments of the population; 49 per cent of non-users list affordability as a barrier to mobile adoption. The study's findings underscore affordability barrier in the country and suggests that mobile taxation contributes to this barrier:

- Traditional voice and SMS services represent 3.1 per cent of average annual income per capita, which is 47 per cent higher than the Latin American average.
- For the poorest 20 per cent of Colombians, mobile broadband costs represent 19 per cent of their income, which is nearly four times the 5 per cent affordability threshold suggested by the Broadband Commission and ITU.
- A basic smartphone represents six per cent of annual income for the poorest quintile, going up to approximately 24 per cent for a premium smartphone. Import duties and VAT in Colombia account for approximately 20 per cent of the cost of a handset.

In addition to general taxation, the colombian mobile sector is subject to a number of sector-specific taxes and regulatory fees levied both on mobile consumers and operators, notably the Consumption Tax (consumers of mobile voice services in Colombia are subject to an additional four per cent tax

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on top of general VAT of 16 per cent) and a FONTIC (fund for information and communication technologies) contribution of 2.2 per cent of operators' revenue. Mobile operators also face other regulatory fees, such as the regulatory commission fee and recurring annual spectrum fees.

The study also demonstrates that, rather than imposing new levies, removing the four per cent Consumption Tax on mobile voice usage has the potential to generate an additional 440,000 connections over the four year period to 2021, 312,000 of which could be mobile broadband connections. The increase in mobile ownership and usage has the potential to increase GDP by a total of US\$1.4 billion and create additional 1,200 jobs in the economy over the four years to 2021. To further reduce affordability barriers, the Colombian government could also consider removing VAT on mobile handsets and smart phones altogether, similar to the approach adopted for laptops and computers. It has the potential to enable low-income populations to access smart phones for the first time or upgrade their feature phones in order to better take advantage of new digital services.

<http://www.gsma.com/newsroom/press-release/new-gsma-report-analyzes-reforming-mobile-sector-taxation-can-promote-investment/>

## Appendix 1: Definitions of Terminologies

BB Terminology	Definition
<b>Level 0 account (L0)</b>	Basic MW account for individuals only with low KYC requirements and low transaction limits.
<b>Level 1 account (L1)</b>	Entry level MW account for individuals only with adequate KYC requirements commensurate with transaction limits.
<b>Level 2 account (L2)</b>	Top level MW account opened by banks subject to full KYC requirements. L2 accounts can be open for individuals, firms, entities, trusts, BB agents, corporation, technology service providers & merchants etc.
<b>M-wallets (MW)</b>	All Level 0, Level 1, and Level 2 BB accounts.
<b>BB Accounts</b>	All Level 0, Level 1, and Level 2 BB accounts.
<b>Banking account</b>	Banking account means a regular bank account maintained in bank branch by agents/customers.
<b>Active M-wallet account</b>	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>
<b>Inactive M-wallet account</b>	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.
<b>Active Agent</b>	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>
<b>Inactive agent</b>	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.
<b>Average Size of Transaction (in Rs.)</b>	Value of transactions divided by number of transactions.
<b>Average number of transaction per day</b>	Number of transactions during the quarter divided by 90 days.
<b>Account to account transfer (MW holders)</b>	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.
<b>Account to account transfer (by Agents)</b>	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.)
<b>MW to person transfer</b>	Number of transactions and amount transferred 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.

## Appendix 1: Definitions of Terminologies

BB Terminology	Definition
<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.