

Special Section 2: Online Payment Platforms in Pakistan – A Case of B2C E-Commerce

Business to consumer E-Commerce (e-B2C) is on the rise in Pakistan. Growing incomes, coupled with advancement in communication technology and expansion of internet access and branchless banking, has been propelling the sector forward.

Various benefits such as comfort (shopping from home), wider selection variety, ubiquity (24x7 service), and interaction possibilities (reviews, etc. to make an informed decision) are the main sources of attraction to the consumers.

Businesses, meanwhile, are venturing into digital platforms to increase their reach (relative to brick-and-mortar stores). Additional benefit comes from low operating costs and flexibility in inventory management (based on feedback, recommendation, and just-in-time mechanisms) which results in increasing margins.

Thus, a range of businesses has shifted to this medium to cater to the growing demand and to remain competitive in the changing market environment (**Box S2.1**). This is an encouraging trend as it provides a potential to document transactions that would otherwise not become part of the formal retail segment. Indeed, 571 local e-commerce merchants are already accepting payments through banking channels as of end-June 2017, with cumulative annual sales worth Rs 9.8 billion.¹

However, a significant volume of transactions is carried via Cash on Delivery (COD). Pakistan Telecommunication Authority (PTA) in its annual report for FY17 highlights that more than ninety percent of online orders were fulfilled using COD during the past fiscal year. Businesses are also hesitant to offer online payments options given considerable upfront development costs (as this involves expenses on reliable and secured infrastructure, negotiating contracts with payment gateway providers, etc.). In this situation, COD allows a cheaper alternate.²

Box S2.1: Major Players in B2C e-commerce:

E-retailers: These are mainly one-to-many electronic sales channels of various existing domestic retailers that had been working brick-and-mortar (physical retailing only) until recently but are now offering products through their websites as well. However, this model, called click-and-mortar, carries with it risks of what is termed as sales cannibalism; under this phenomena, transactions from

¹ In addition to that, transactions worth Rs 20.7 billion were carried out by consumers on international e-commerce websites.

² However, COD brings its own set of challenges. For example, the risk of nonpayment shifts to business, and their operations become geographically constrained.

one marketing channel simply divert to the other without having a positive impact on overall sales growth. This brings us to our next type of e-commerce channel.

Online marketplaces: These marketplaces mostly act as intermediaries to various sellers and buyers, helping lower search and transaction costs and expand reach of the businesses and choice for consumers. Such many-to-many platforms dominate the international e-commerce landscape, and the trend is evident in Pakistan too. Players include both horizontally interconnected channels such as Daraz.pk and Mega.pk, that offer numerous consumer items at one place, and specialists such as FoodPanda (which focuses on the catering and delivery services), that are vertically connected to a single segment's supply chain.

Online information and financial intermediaries: Channels such as PakWheels, Rozze.pk, and Zameen.com fall into this category. The players of this nature serve to fill the information gap and mostly earn profits through contract making and commission fees.

Electronic Transportation Firms: This category includes players like Careem, Bykea, and Uride, who provide ride hailing and car pooling services through internet channels such as a mobile app.

Social Media Based Sellers: These players are either one-to-many or many-to-many stores that operate purely through social media platforms like Facebook and Instagram. Customers book their orders via the retailer's "page" and can then "review" their purchase in the form of *likes* and *comments*.

From the consumer perspective, a preference for cash and low financial literacy accentuates the need for COD. Even those customers who are financially literate feel hesitant to share their personal information online due to security concerns. A second major issue that keeps consumers from adopting towards advance payment mechanisms is the fear that their products might not be delivered or they might be different in nature or quality from the items mentioned online. Payment on delivery covers their risks in this regard. Furthermore, absence of a common payment platform that could integrate mobile wallet, debit/credit card, and bank accounts leads to consumers facing inconvenience and higher charges.³

Hence, any strategy for a smoother transition to electronic payments should involve incentives to consumers (e.g., discount or value added services such as prioritized delivery) to transact online. At the same time, there is a need to create a platform that is compatible with the transfer operations of all commercial banks and offer low-cost funds transfer.

In this regard, it is encouraging to note that Pakistan provides a considerably

³ To elaborate this point further, most of these businesses allow online payment through debit/credit card only; payment through other modes (e.g., mobile wallet and bank transfers) are less common and limited in scope. In addition, many commercial banks restrict use of debit cards for electronic transaction, which can be lifted by contacting their help line, for instance. This further hinders the adoption of digital exchange mediums by the customers.

flexible interoperable environment. All commercial banks are inter-connected with each other through Payment Service Operator (PSOs) like 1Link and Master/Visa. This flexibility goes deeper as even the mobile wallet accounts can transfer funds not only to other digital wallets but also to formal banking channels via similar PSOs. What was lacking until recently was a payment gateway that would allow these interoperable activities to work online as well.

Encouragingly, a number of third party service providers (TPSPs) are venturing to bridge this gap. EasyPaisa, for instance has its own payment gateway called EasyPay, which allows consumers to transact online using any debit/credit card, their EasyPaisa account, or through an EasyPaisa agent. FonePay, another entrant, is taking things further by allowing payments through two mobile wallet accounts (EasyPaisa and Jazz Cash).⁴ The future direction is towards a payment gateway that caters to the need of all m-wallet holders for all types of small value payment transaction.

The regulatory environment is also facilitative, as SBP has offered intensive guidelines for authorized financial institutions and potential TPSPs to build such an exchange medium. The guidelines also set benchmarks for security, transparency, flexibility and compatibility to ensure a supportive legal environment as well. A recent development in this regard is the agreement between SBP and the regional channel of Bill and Melinda Gates foundation to build a micro-payment gateway for providing interoperable payment facility for all m-wallet accounts. Furthermore, SBP has also been promoting the adoption of domestic payment schemes (such as PayPak) by commercial banks and digital retailers. This would not only lower operational costs relative to when using comparative foreign operators, but would also help tackle arbitration issues more efficiently.

Lastly, the government and SBP⁵ has also initiated various training schemes to enhance digital and financial literacy in the country under initiatives such as the National Financial Literacy Programme. These would help mitigate the operating problems and hesitation that consumers feel while transacting online.

Cumulatively, such joint efforts are expected to shift consumer preferences towards cashless transactions, and ultimately increase the level of documentation in the economy.

⁴ Other services such as Monet and TPL Rupya are also entering the market.

⁵ SBP marks increase in financial inclusion and improvement of digital payment processes as key objectives to be achieved under its Vision 2020.