

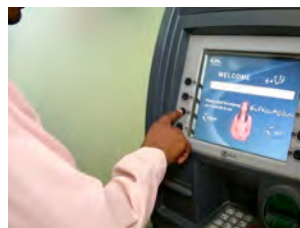
Case Study 1

After Watan:

The contributions of a G2P payments program to building a branchless banking industry

As Pakistan stands poised to become the “most competitive mobile money and branchless banking industry in the world” (10), it is a good time to reflect on the role of G2P programs on the growth of the sector. In August 2010, a devastating flood hit large areas of Pakistan, displacing over 20 million people and destroying crops, homes, and infrastructure in its wake. The Government of Pakistan launched a cashless social transfer program to respond to the disaster, via a debit card branchless banking solution called the “Watan Card”.

This case focuses on the implementation by one bank, United Bank Limited (UBL), which partnered with The Bill & Melinda Gates Foundation to implement the program. UBL via Omni its branchless banking service successfully disbursed over 1.4 million debit cards and 58 billion rupees through the Watan Card – but what were the other contributions of this G2P program to the growth of the sector? This case study highlights the experience of UBL Omni, to determine whether there are other key lessons that can be drawn as to how stakeholders can leverage G2P initiatives to improve national branchless banking networks, help build the mobile money business case for service providers, or make real contributions to increased financial inclusion.



Background

Why the Watan Card solution was needed, and how it was launched

The 2010 flooding of Pakistan's Indus River and its tributaries resulted in great injury and loss of life, as well as impacting commercial structures and equipment and public infrastructure such as schools, hospitals, roads, railways, and utilities.

The floods began in late July 2010, as a result of heavy monsoon rains in the Khyber Pakhtunkhwa, Sindh, Punjab and Baluchistan regions of Pakistan, which affected the Indus River basin. At the height of the crisis, nearly one-fifth of Pakistan's total land area was underwater (about 796,095 square kilometres), and the floods impacted and displaced over 20 million people; nearly 2 million families lost their homes and belongings, and almost 2,000 people died (Ref. 6, 7).

The damage to property and infrastructure was immense, and was estimated to exceed US\$4 billion. Families whose livelihoods depend on agriculture were particularly affected, as 17 million acres of cropland was submerged, including sugarcane, rice, tobacco, wheat and animal fodder, and 200,000 head of cattle were lost. All in all, the total economic impact was estimated to be as high as US\$43 billion (Ref. 7, 8).

In the wake of this disaster, there was an urgent need to provide flood-affected families with a rapid cash transfer to support them to meet their most basic needs in the weeks following the crisis. Fortunately, the Government of Pakistan had gained experience in using technology-based cash transfer systems in emergency situations, for example for the Internally Displaced Persons (IDP) cash transfer program in 2009 which was implemented by UBL. However the scale of the 2010 floods was much larger, with 20 million people affected, and the Government needed a partner with experience in electronic cash transfers in emergency situations. When the question arose of how to get cash aid to the flood-affected families in a quick and transparent manner, the Government called UBL and the rest of the banking industry to present solutions. Previously, UBL had worked with the GoP to facilitate cash aid disbursements to another set of internally displaced persons—albeit at a smaller scale—and the Government requested a similar technology-based solution. All of the banks were asked to make formal proposals on how to manage the card and cash disbursement for four affected provinces and 70 affected districts of Pakistan, reaching up to 1.6 million displaced families.



Each of the Provinces had to choose their preferred banking partner based on the presentations. UBL was the only bank that was ready to deliver right away, and coupled with the bank's previous track record on a similar project (the IDP program), UBL was selected by the provinces of Khyber Pakhtunkhawa, Punjab and Sind and also by the Government of Azad Jammu and Kashmir to implement the Watan Card project.

Citizen's Damage Compensation Program (CDCP) I was launched in September 2010 and was designed as a one-time cash transfer of PKR 20,000, usually to male heads of households, based on geographic targeting of locations which suffered flood damage. Subsequent phases of the programme were launched at a later date.

The programme required significant coordination and drew on the expertise of a variety of stakeholders. At the federal level, the program is managed by the Cabinet Division in partnership with the provincial governments through their respective Provincial Disaster Management Authorities (PDMAs). The National Database and Registration Authority (NADRA) was also engaged for the identification and verification of the beneficiaries within the affected areas. The electronic payments were facilitated through partnerships with three commercial banks.



The Branchless G2P Intervention

UBL Omni Watan Card

Intro to UBL and UBL Omni

United Bank Limited (UBL) is one of the largest commercial banks in Pakistan, operating in its current privatized form since 2002. In 2010, UBL launched its branchless banking service, “Omni”, a tel-co-agnostic service which operates on UBL’s internally-developed software platform, offering a full suite of services including bill payments, domestic remittances, mobile wallet accounts, ATM Cards and airtime top-up. Government-to-person (G2P) payments were also offered soon after the service start-up. By 2013, the Omni branchless banking business has grown to include over 10,000 bank agents (Omni Dukaans), and processes over 4.5 million digital financial transactions each month.

Objectives of Watan Program (CDCP)

The Citizen Damage Compensation Program (CDCP) was one of a series of efforts by the Government of Pakistan to reform and revolutionize the safety net system in Pakistan to reach the poor through cash transfer programs. While the first priority was enabling the rapid, transparent and safe transfer of cash values to millions of affected households, a secondary objective was to help to pave the way towards ensuring financial inclusions of the poorest, through the introduction of technology-based solutions such as mobile banking, smart cards and debit cards, and the point-of-sale (agent) networks. These new channels do not require traditional banking branch infrastructure, reducing the cost and enabling financial institutions to serve less densely-populated areas and lower-income people (with smaller balances and transaction sizes) to be served in a more sustainable way.

For Omni, there were also a few different objectives. First, the bank wished to support the government and the people of Pakistan during a time of great need, leveraging the bank’s previous branchless banking investments. Second, the programme presented the opportunity to test the Omni systems to see whether they were appropriate for these types of cash-transfer programs, and in such a wide geographic area and on such a large scale. Finally, the program would also allow Omni to reach out to an entirely new type of customer, one who hadn’t yet tried its branchless banking services. While the floods affected a range of demographic groups, quantitative and qualitative research conducted showed that the majority of beneficiaries were low-income, and mostly unbanked. This opportunity would thus also present a challenge: Watan Card beneficiaries would have a low level of experience with financial services in general, and with branchless and card-based products specifically.



Bank Investments for Watan

Technology, HR and logistics

Within just a few weeks, UBL Omni had to design, procure, and distribute over one million debit cards to flood-affected citizens of Pakistan. In a country that previously only had 5 million debit and credit cards combined, this was no easy feat. The bank made several types of investments to facilitate the new G2P electronic payments program, including technology, human resources, and logistics investments.

Technology investments

The Omni software platform is built for mobile or PC users. Omni uses one core application for all of its branchless banking products, and the bank was able to use the same technology for the Watan card product. Some enhancements were required to the application to enable the G2P disbursement services, especially the introduction of the Watan debit card. To use the Watan card with PIN, Omni integrated the IRIS bank switch application which contains the beneficiary (card owner) details and the PIN information. IRIS authenticates the PIN, and notifies Omni that authentication is complete. Omni can then perform debit and credit to Watan Card Omni accounts, or other maintenance activities like blocking or changing a PIN.

The Watan Card was also integrated into the UBL Customer Relationship Management (CRM) system, Altitude. Through this one system, all client information is made available to Omni customer service and telephone call center representatives.

Because Omni decided to use a debit card for the Watan project, hardware and plastic (card) investments were also required.

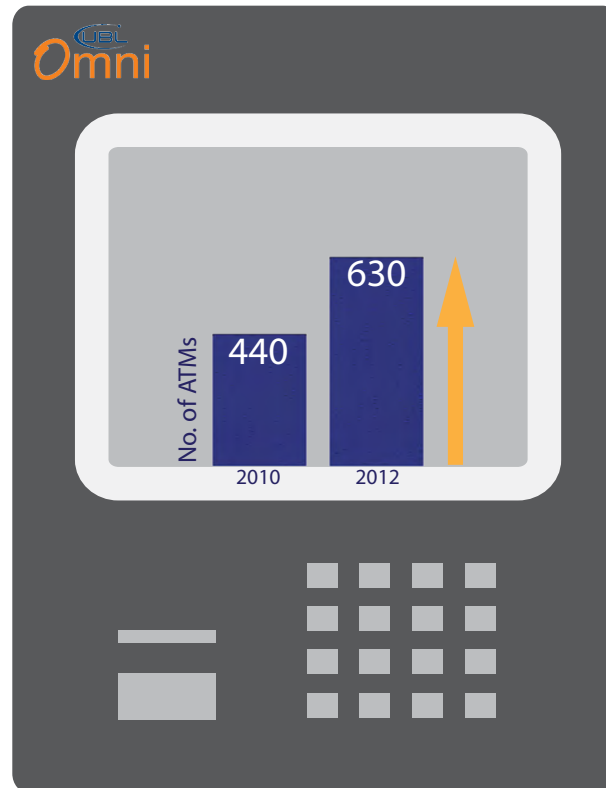
- Watan magnetic strip cards: Omni chose a magnetic strip debit card for Watan, so as to maximize the number of potential distribution channels where the card could be used, as noted below. In the first phase, the card was a VISA branded card, however for Watan card holders any fees associated with the VISA card were waived by both VISA and Omni.
- POS and connectivity: Omni rented about 400 of Point-of-Sale (POS) terminals for installation at flood refugee camps, which were serving as distribution centers for the Watan Card project. The total cost of POS investments was approximately Rs. 5 Million. The POS terminals used GPRS and had a SIM card installed, which allows the user to dial a connection to the Omni server. Omni had several different mobile network SIM cards available, and would install them according to which carrier had



the best connection in that area. Telecom carriers were supportive of Omni's Watan activities, and if any weak signals were reported, they were able to provide technical support to correct this.

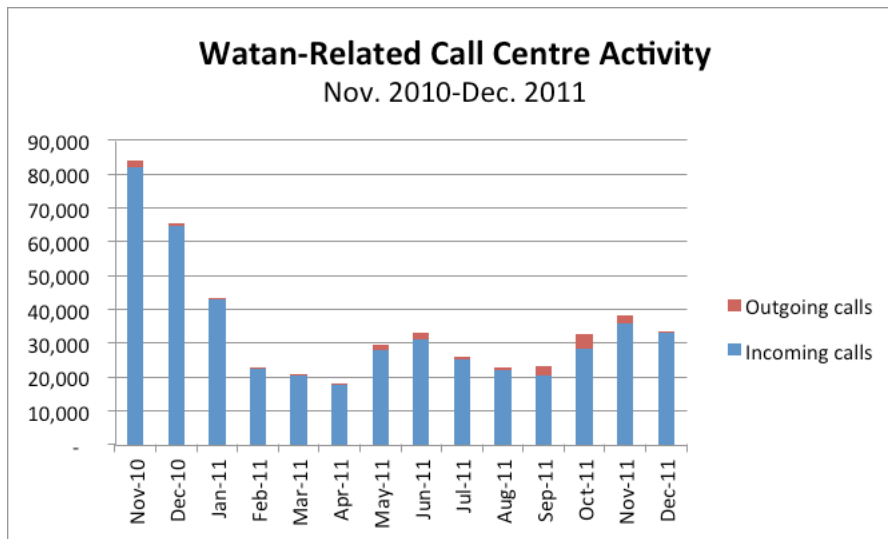
- Automated Teller Machines (ATMs): The Watan card could also be used at ATMs, whether UBL brand ATMs or other banks' ATMs.

Number of UBL Network ATMs



Human resource investments

- Customer call centre staff: Watan clients came from several different regions of Pakistan, spoke four different languages, and had varying levels of literacy. To respond to the high anticipated demand for customer support, UBL launched a new dedicated customer call line for Watan in order not to disrupt regular Omni calls and to more easily register complains without long wait times. Special call centre agents were hired with regional language proficiency, to allow Omni to offer services in Pashto, Punjabi, Saraki, and Sindhi. Between November 2010 and December 2011, Omni call centre agents handled over 495,000 calls about the Watan program, 95% of which were incoming calls.



Source: Omni database.

- Card distribution centre staff: Approximately 800 temporary staff were hired and trained and deployed across 85 countrywide camps. Challenges were numerous and expected given this was an emergency program. These included sporadic power outages and connectivity issues, no formalized training due to urgency to mobilize staff, handling and organizing very large queues and cash security/management challenges in remote locations.



Logistics investments

- **Cash management:** Since most recipients were not close to an ATM, and because the Omni Dukaans were not authorized for Watan payments, it was necessary for Omni to take responsibility for cash transport and handling for the initial round of Watan Card payments. Third-party cash transportation and security companies were contracted and cash in transit was insured where possible (Cost of insurance for overall country operations was approx. Rs. 5 million), to ensure safety. For the ATMs as well, it was necessary to ensure adequate cash availability, since the machines were experiencing much higher than normal volumes during the Watan program, as people traveled from surrounding villages to use ATMs in urban centres, sometimes queuing for hours to access their payments. ATMs without cash could cause frustration amongst recipients. To handle this, UBL pro-actively monitored ATMs in beneficiary locations to ensure timely cash replenishment, however it was difficult to ensure that non-UBL brand ATMs also maintained sufficient cash on hand. This was improved by Phase 2 of the project, since Phase 2 volumes were less and it was not an emergency phase, there was thus more time for planning and preparation and less rush at the ATMs.
- **Watan Card production, procurement, and transportation:** Once the project was approved, Omni began to immediately negotiate the participation of plastic card and card technology vendors –the bank basically had to construct a brand-new global supply chain for the plastic debit cards needed for the project. Omni had to significantly enhance its internal capacity so that they could generate 30,000 cards per day. The blank cards themselves had to be procured from China, Thailand and Dubai, shipped to Dubai for personalization, and then sent to Pakistan where they were packed in envelopes along with the PIN mailers that were printed in Pakistan.
- **Launch and management of registration centres:** There were thousands of persons lodged in temporary camps during the crises, and the organizational needs to distribution the Watan Cards and cash were immense. To handle this, Omni engaged UBL's branch network personnel i.e. branch managers and customer service team across the affected locations. This branch team was responsible for hiring of temporary staff, arranging cash at registration centres, maintaining all bank assets such as laptops at camps, and overall management of UBL's card issuance and cash disbursement function at camps. The overall registration center management costs including personnel travel, meals, equipment, temporary staff, etc. was approximately Rs. 50 Million.



The Watan Card Delivery System

Front-end delivery mechanisms and customer experience

To distribute the cards to the beneficiaries, UBL in coordination with NADRA established 85 Watan Card Enrollment Centres, many of which were located in or close to refugee camps. To receive the card the beneficiary was required to present a valid CNIC, which was validated by NADRA through a real-time connection. Once approved by NADRA, Omni issued the enrolled beneficiaries an ATM/debit card (Watan Card).

Once the debit cards were packed and ready for distribution at UBL central location, Omni arranged for shipment to the flood camps where UBL staff could distribute them personally to the beneficiaries. During the intense initial six to eight week period of the project UBL was distributing between 20,000 and 40,000 Watan cards per day. To facilitate payments, the affected families were provided with a card popularly named the “Watan” card with a magnetic stripe that could be operated by using both Point of Sale (POS) terminals and Automated Teller (ATM) machines.

The card must then be credited with funds by the bank from the GoPs’ account, only when notification was received from NADRA via a real-time system link; this process was normally completed within 48 hours of card issuance. Once the Watan benefit of 20,000 rupees was loaded onto the card, and the enrolled beneficiary becomes eligible to withdraw money at Watan Card Centres where payment points are installed, or at designated bank ATMs. The Watan Card was treated as a special situation and all banks allowed their ATMs to be accessed by the cards, in addition all transaction fees were waived for beneficiaries.

Because most of the beneficiaries were living in refugee camps at the time of the card distribution, the majority also chose to receive their cash payout directly at the special-purpose POS in the camp locations. Each one of these card beneficiaries wanted to withdraw their cash (about 20,000 Rupees or USD 232) right away, which meant that the ATMs, POS, and back-end systems also needed to be ready to handle this volume of transactions. In Phase 1, Omni estimated that about 90% of funds were withdrawn using POS, and 10% using ATMs.



Conclusions and Impact of Watan

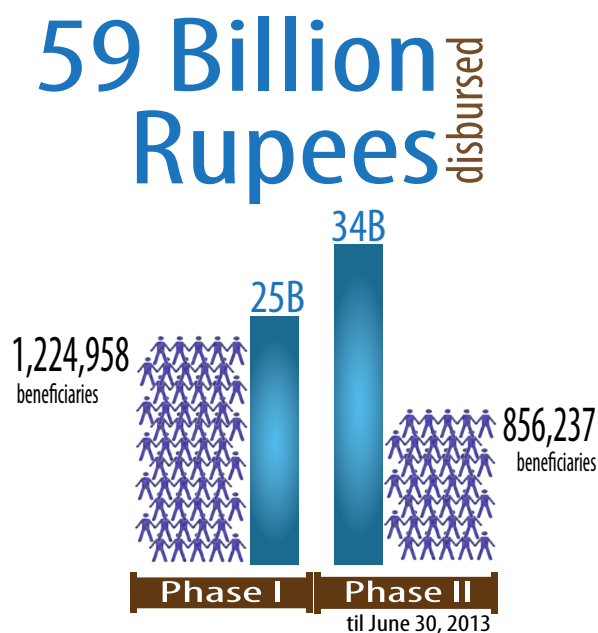
Customer, financial institution and government level impacts

Customer level impacts

Outreach of branchless banking

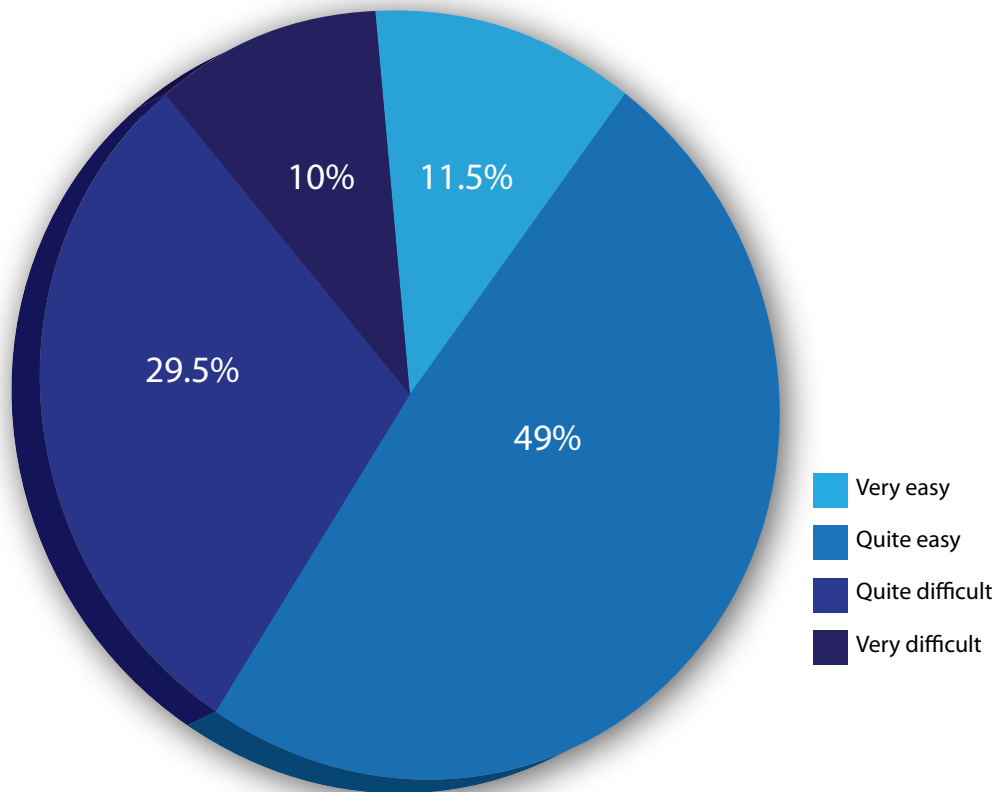
One immediate impact was the number of households introduced to branchless banking via the Watan program, and in record time, using the branchless banking infrastructure of both Omni and other providers. Within three months of the initiation of CDCP I in September 2010, 1.4 million families were registered and paid PKR 20,000. To date, a total of more than 1.53 million families across Pakistan have been granted cash assistance under the Watan Card Project. The Government of Pakistan, with the help of donors, implemented a second phase of CDCP to continue to support the recovery of flood-affected households. This CDCP Phase II is expected to provide PKR. 40,000 to up to 1.1 million flood affected households, in two PKR 20,000 tranches.

Number of cards distributed and amounts disbursed, UBL Watan program (2010–2013)



Quantitative and qualitative research by various entities including CGAP, Oxfam, World Bank, and MEDA showed that for the majority of households, this was their first exposure to branchless banking, and sometimes formal banking of any kind. This was an exciting opportunity to get the technology into the hands of the poor, to see what the results could lead to. For example, one study showed that nearly 50% of clients found the Watan card 'quite easy' to use.

How easy did people find using the Watan card?



Source: Smith et al. (11)



Improving financial and branchless banking literacy

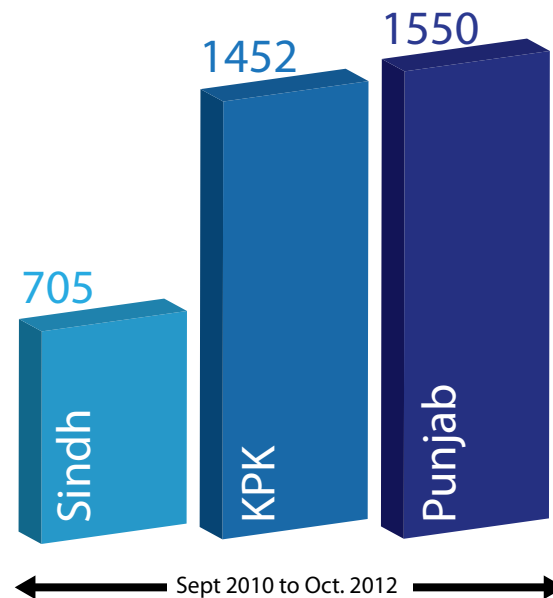
As mentioned, in the CDCP II, more customers had transitioned back to their homes and Watan funds were disbursed in large part using the UBL ATM network. Approximately 80% of Watan customers accessed their funds through an ATM, and the remaining 20% accessed the funds through POS devices made available at the camps locations. The number of POS withdrawals reduced by approximately another 10% in Phase 2. This is encouraging because it shows customers are learning about branchless banking options and how to use them. In fact, during a MEDA visit to Pakistan in May 2012 we observed Watan customers using a UBL ATM in the province of Sindh. There were still challenges (e.g. the customers were unfamiliar with the ATM use, and instructions on the machine were sometimes not available in local languages), however bank staff were on hand and were willing to help customers to use the machine.

Financial institution level impacts

Expanding and improving agent networks

UBL Omni has also been able to use the Watan program as an opportunity to further extend its agent network, especially in helping the company establish agents in areas which may not have been prioritized before the flood event. Based on these agent locations, Omni has been able to build its marketing and promotional strategy around these areas. Overall, over the full length of the Watan program Omni added 3,852 new agents in KPK, Sindh, and Punjab. Of this new agent total, grant funds supported the addition of 1,715 agents, while Omni self-financed the addition of 2,137 agents in the three program provinces. A geographic breakdown of the new agents added according to province is shown to the right.

Number of agents added to the Omni Network



Proving viability of magstripe card use

A major learning for UBL Omni, and for the entire industry, from this project was the utility of the magnetic stripe card. Prior to the Watan program, the only initiative that had used magnetic stripe cards to provide cash grants to non-literate and unbanked beneficiaries was the Internally Displaced Persons (IDP) G2P project – albeit on a much smaller scale. The Watan project showed that card and PIN technology is relatively easy to use and adds tremendous value in terms of transaction authentication and security. This mechanism also provides much greater efficiency, speed, accuracy and transparency in large scale cash disbursement projects as witnessed by the over 1.4 Million card issuance and disbursements in 3 months of the project. This led to the transition of the BISP program (over 5 Million beneficiaries) to magnetic stripe and ATM /POS technology. With the success of Watan and other magnetic stripe based programs (BISP, Omni retail), UBL Omni innovated an alternative to traditional POS devices to be used at agent locations. This low cost magnetic card swiper was developed for use on a mobile or PC and provide card present and PIN authentication for all BISP transactions at agent locations.

Business case for G2P and low-balance customers

One aspect of the impact of the program has been to expose banks to a new market segment and also test different models for reaching these customers, in order to also test the business case for these types of G2P and related services that could be sold to the same customers. As a G2P payment service provider, financial institutions earn a fee of 3% on transactions facilitated. Other research studies have indicated that this is in line with other programs globally and that it should be sufficient to cover costs of service delivery. However, extending other branchless banking services to G2P recipients may follow a different revenue model and/or require additional investment in business components such as product development, agent network development, and specialized marketing strategies.

Qualitative interviews with all participating banks, including UBL, showed a positive outlook towards the future of offering financial services to low-income customers through branchless networks. Comments from bank heads and VPs included:



In addition, other programs, such as the Benazir Income Support Programme (BISP), which was launched in 2008 to provide cash transfers of Rs. 1000 [\$12] per month to 3.2 million eligible women have also been supporting this transition to technology-enabled cash-transfers. The experience with Watan has enabled UBL to work with other donors including the World Food Programme and the World Health Organization. It has also brought the bank international exposure: UBL Omni was recognized as the winner of GSMA's Global Mobile Award 2012 in the category of "Best Use of Mobile in Emergency or Humanitarian Situations". The award was based on the effective deployment of the Omni service in both the 2009 Internally Displaced Persons Crisis and the 2010 Watan Card flood relief program.

Government level impact

Based on the success that Pakistan has experienced with the Watan and BISP programs, a de facto standard of card based disbursements has been established in Pakistan for GoP transfer services and there are efforts underway to migrate pensions, salaries and other government payments to card POS/ATM technologies. This could continue to have a positive impact at the customer and financial institution level, as more and more customers are brought into the branchless network, thereby increasing traction in the market and potentially profitability for agents. The initial efforts to distribute social cash transfers electronically have now been expanded to include a wider variety of government flows. In fact, social cash transfer programs constitute about 11% of total government payments, while salaries make up 68% and pensions 21%. Among social cash transfers, the Benazir Income Support Programme (BISP) represents the largest in terms of number of beneficiaries and volume of payments. CGAP estimates that within 5 years over 75% of government payment flows could be digitized. (3) Salaries have already begun to be done electronically, while \$1.9 billion worth of pensions present another opportunity to bring customers into the digital payment network (3).

Pakistan is well on its way to digitizing a large share of its government flows to people, and the Watan experience is an example of how public and private institutions together can move a country towards a deeper digital financial system. If the momentum can be maintained, while continuing to invest in customer awareness and relevant infrastructure and services, the long-term outlook looks positive for branchless banking in Pakistan.



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