



Branchless Banking News

Leveraging Technologies and Partnerships to Promote Financial Inclusion

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Mobile phone subscription has seen explosive growth in Pakistan – total subscription now reaches to 109 million across customers in all income segments, and growth continues apace. In contrast, banking accounts are owned by approximately 25 million customers, largely belonging to high income segments. The fast mobile penetration and its continuing strong growth fuels expectations that transformational branchless banking (BB) models would prove a game-changer in improving access to finance in Pakistan.

Hitherto, lack of a sizable distribution network had been a major challenge in broadening access to financial services. Developing brick and mortar branches is a costly proposition. Even handling field operations from such branches has proved expensive owing to ever-increasing associated costs. As a result, a large segment of the population that lives in rural and remote areas remained deprived of banking services. An important implication of this exclusion is that this large populace has been overwhelmingly reliant on cash-based transactions, thus causing myriad obvious negative impacts on documentation of the economy, the tax-base, efficiency of economic transactions, etc.

Accordingly, SBP has sought to foster greater financial inclusion by encouraging financial institutions to take advantage of its efficient and robust payment systems infrastructure to offer new transactional instruments such as cards, ATMs, PoS, and internet banking. While banks did respond, until recently, the access of such instruments remained targeted to middle and upper end of the market due to limited outreach of associated technologies. The relatively recent phenomenon of mobile phone banking, however, has now started changing these dynamics phenomenally. A key advantage of mobile phone banking over conventional banking is the opportunity of doing banking ‘anywhere, anytime’ with a low cost mobile handset.

Mobile phone banking emerged on global radar in year 2005-06. The SBP readily adopted the idea. In its ‘Expanding Microfinance Outreach’ strategy released in 2007, SBP committed to develop branchless banking regulations to enable commercial and microfinance banks to increase their outreach manifold through this technology. It issued the Branchless Banking Regulations in March the following year. Thereafter, SBP has focussed on providing an enabling environment to market players, persuading them to benefit from new opportunities, and offering them appropriate incentives for market development, with the ultimate objective of broadening and deepening financial inclusion.

Although Branchless Banking Regulations only allow bank-led model, it encourages multiple approaches for developing partnerships. The partnership models include one-to-one (one bank having joint venture/agency agreement with one teleco/non-bank), one-to-many (one bank with many telcos), and many-to-many (many banks with many telcos) This is aimed to create space for experimentation as well as to keep prudent supervisory oversight. The permissible activities under branchless banking are opening BB account, fund transfer, cash-in and cash-out, bill payments, merchant payments, loan disbursement/repayment etc. These activities may be offered through a variety of channels such as mobile phones, retail agents, ATMs, smart cards, and POS. The resulting convenience and low transaction costs are expected to be critical to greater financial inclusion.

So far, two major BB models have emerged in Pakistan: (i) ‘Easypaisa’ by Tameer Microfinance Bank, and (ii) ‘Omni’ by United Bank Limited. Within a span of just two years, the combined daily transaction volume of the two services already averages over 175 thousand, with an average size of Rs 3,700. A survey on one of these services showed that almost half of

its users did not have a bank account and almost two-thirds used the service regularly. These results hint at the considerable un-met demand for efficient, low cost and accessible financial services. This point has not been lost to potential investors, and a number of competing models are being introduced.

Other BB products/services introduced in the market include First Microfinance Bank’s collaboration with Pakistan Post, and Dubai Islamic Bank pilot project. MCB Bank and Askari Bank are both expected to roll out their pilot test shortly, and recently, Orascom Telecom (Mobilink) has also obtained a license to establish a nation-wide Microfinance Bank namely Waseela MFB to start microfinance operations through a branchless banking platform. Similarly, NADRA has designed a distribution platform under the brand name ‘e-Sahulat’ to provide online payment and collection facility for the general public as well as for organizations. A few other players are undertaking feasibility / market surveys to assess branchless banking prospects.

The early successes of mobile banking in Pakistan are attributable to the collaborative efforts of a wide range of stakeholders, including Government, regulatory authorities, development agencies, NADRA, telecom operators, financial institutions, and technology firms. SBP continues to work with all stakeholders, in order to support this nascent industry that is expected to be a key driver in expanding financial services to all of Pakistan. The sheer diversity of the stakeholders, many of which had not worked in businesses together, underlines the need for continued close coordination to foster a market-driven mobile banking eco-system.

In May 2011, SBP organized an international G2P conference on showcasing Pakistan as an emerging market with significant market development. All policy makers and key market players presented their views and analysis on performance and dynamics of Pakistan’s market. By providing critical support, Government of Pakistan (GoP) has been encouraging SBP in efforts to promote innovation and technology in banking sector. A case in instance is GoP’s decision to opt for the use of mobile phone and smart cards for G2P payments for flood affectees, IDPs, and social welfare payments (under Benazir Income Support Program). Currently, SBP is facilitating Pakistan Telecommunication Authority (PTA) in developing regulations on Third Party Service Providers (TPSP). This initiative would facilitate inter-operability between services of existing and new players in branchless banking.

It is heartening to note that the emerging branchless banking models have experienced impressive initial growth. However, these models are still in an early-phase experimentation, requiring understanding of critical issues and taking measures to expand retail networks and leverage technologies. Once these models reach to a degree of maturity, the inter-operability will come in to facilitate customers to send money to anyone with account at any bank, and do cash-in and cash-out with agent of any bank. Getting to this ultimate stage will be both exciting and challenging.

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Branchless Banking Snapshots

Average number of BB transactions per day are increasing over time, and average size of transaction is Rs. 3,700(USD 42.53*)

Key BB Indicators	Jun-11	Sep-11	Quarterly Growth
Total No. of active BB Agents	15,829	17,448	10.23%
Total No. of active BB accounts	236,464	357,598	51.23%
Total BB Deposits as of Date (Million Rs.)	146	187	28.03%
No. of Transactions During the Quarter (in '000')	12,500	15,867	26.93%
Volume of Transactions During the quarter (Million Rs.)	41,000	58,710	43.20%
Average Size of Transaction Rs.	3,280	3,700	12.81%
Average No. of Transaction Per day	138,889	176,296	26.93%

17,448 BB agents are currently serving more than 357,598 BB accounts

Volume of Branchless Banking Transactions			
During the Quarter July-September 2011			
Product/Service	No. of Transactions	Volume Transacted	
		Rs. in million	USD* in million
Fund Transfers			
Account-to-Account Fund transfers	188,941	16,093	185.788
Person-to-Person Fund Transfers	4,839,090	18,233	210.493
Account-to-Person Fund transfers	498,752	646	7.458
Person-to-Account Fund Transfers	46,528	260	3.002
Deposit			
Cash-in (Deposit)	785,259	569	6.569
Cash-out (Withdrawal)	37,012	73	0.843
Bill Payments & Top-Ups			
Utility Bills Payments	7,631,435	10,400	120.064
Merchant Payments	387,512	8,861	102.297
Mobile Top-ups	1,267,965	73	0.843
Loan			
Loan Disbursement	-	-	-
Loan Repayment	10,216	23	0.266
Others			
Donations	70,328	2	0.023
Others	103,634	3,481	40.187
Total	15,866,672	58,711	677.796

As evident from the data, different applications have experienced different degrees of uptake.

*USD 1 = Rs. 86.6204 (as of 18th October 2011)

State Bank Revises Branchless Banking Regulations....

SBP has recently revised branchless banking regulations with the objective of increasing role of agents, convenience to customers and reduction in operating cost.

SBP has introduced level "0" BB account, enhanced transaction limits, allowed digital documentation, removed the biometric requirements and throughput limits, introduced new category for funds transfers, on-going due diligence, fraud and forgery reporting, agent due diligence, role of agents and agent take-on or expansion plan. Moreover, the revised regulations have given an option of provisional operation of account with deposit and withdrawal before actual activation of account.

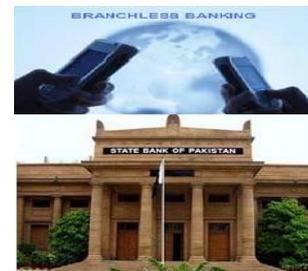
Salient Revisions are as follows:

- SBP has introduced a simplified level "0" account wherein agents have given option to **provide digital record of customer including digital account opening form, customer's digital photo and digital image of the customer's CNIC.** This new category of Level "0" BB Account will provide flexibility to the Agents and the FIs for opening of basic BB accounts while rationalizing Know Your Customer (KYC) requirements in line with the transactions limits. One deposit and one withdrawal transaction is allowed in the account during account opening process and before activation of account. All services permissible under existing Branchless Banking Regulations will be available to Level "0" account holders subject to the limits given in Box 1.
- Considering inflationary impact and need to create greater transactions volume, **limits on Level "1" BB Accounts have also been enhanced.** FIs have also been allowed to accept three deposit and one withdrawal transaction during account opening process at the agent location before account is fully activated. FIs are required to verify customer's CNIC particulars from NADRA, including photograph, signature and at least one of the following two fields of unique information not disclosed on CNIC and account opening form: i) Mother's maiden name OR ii) Place of birth etc. FIs are also required to confirm either from PTA or the customer that the given cell number of the customer is registered in his/her name. All services permissible under the Branchless

Banking Regulations are available to Level "1" account holders with the transaction and maximum balance limits given in Box 2.

- The requirement of biometric fingerprint scan for opening of Branchless Banking (BB) account has been withdrawn.** The relaxation has been provided on account of saving cost of placing expensive devices at thousand of agents' location. The relaxation would reduce operating cost of opening accounts in far flung areas and would provide room in considering remunerative low balance accounts.
- Definition of throughput limit was discouraging account-based transactions therefore, **the throughput (Debit/Credit) requirement has been withdrawn on Level "1" and newly allowed level "0" BB Accounts.** Moreover, the amount of payment of utility bills shall not be counted as part of revised transaction limits. Now BB Accounts can be used to pay utility bills (e.g. Gas, Electricity, Phone etc.) without exhausting account limits.
- Moreover, to encourage account-based transactions and to facilitate low income migratory workers, a new category of fund transfer from BB account holder to other persons (non-account holder) and Person-to-Person **fund transfers with transaction limits of Rs. 25,000 and 15,000 per month respectively has been introduced.**
- Further, to encourage BB accounts and promote savings, **BB accounts have been allowed to pay remuneration on balances maintained in the BB Accounts.** FIs shall develop a remuneration mechanism for all Levels of BB accounts.
- To protect customers from agents' fraudulent activities, SBP has instructed **FIs to have zero tolerance policy against alleged fraudulent agents.** On reporting of fraudulent activity by customer, FI will immediately block agent's transactions capabilities. If the fraud is established, FI will terminate service agreement with the agent, initiate appropriate legal and penal action against him, and report the fraud instantly to SBP.

'Level-0' account may now be opened electronically.



Box 1: Introduced Level "0" Account with following limits:	
Daily Limit:	Rs. 15,000
Monthly Limit:	Rs. 25,000
Annual Limit:	Rs. 120,000
Max. Balance Limit:	Rs. 100,000

Box 2: Revised Level "1" Account Limits as follows:	
Daily Limit:	Rs. 25,000
Monthly Limit:	Rs. 60,000
Annual Limit:	Rs. 500,000
Max. Balance Limit:	No Limit

G2P Payments Conference



With appropriate delivery models/ products, G2P Payments recipients can be brought into the sphere of financial services, which is an opportunity not to be missed.

SBP, in collaboration with Consultative Group to Assist the Poor and Bankable Frontiers Associates, under the auspices of the Financial Inclusion Program (FIP) sponsored by the UK Department for International Development (DFID), organized a two day Government to Person Payment Conference on May 9 to 10 of 2011 at Learning Resource Center, SBP Karachi. Stakeholders from the entire financial ecosystem including government agencies, banks, telecoms, international players, program managers, regulators and suppliers were invited in the conference.

On May 09, 2011, The Ex. Governor, State Bank of Pakistan Mr. Shahid H. Kardar launched GBP 10 million Financial Innovation Challenge Fund (FICF) and unveiled the first round of FICF on Government to Person Payments (G2P). Banks, public sector institutions, Microfinance institutions, government agencies, pension funds, and academic institutions are invited to apply to promote

G2P payment through bank accounts at branchless banking outlets and also provide other financial services to the G2P payments beneficiaries ; he added. Delivering his key note address he said that FICF would provide grants to foster innovations and test new markets, lower cost of service delivery, enable systems and procedures to be more effi-

cient and provide new ways of meeting the unmet demand for financial services.

The conference was addressed, among others, by Mr. Haroon Sharif of DFID, Mr. David Porteous,

Financial Innovation Challenge Fund

State Bank of Pakistan is implementing the Financial Inclusion Program (FIP), sponsored by the UK Aid, with the aim to improve access to financial services in Pakistan. FIP has earmarked GBP 10 million in grants under the Financial Innovation Challenge Fund (FICF) to help the financial sector reach the excluded with use of innovations. Specifically, FICF will foster innovations to test new markets, lower cost of delivery, enable systems and procedures to be more efficient and provide new ways of meeting the unmet demand for financial services. The fund will hold specialized challenge rounds focusing on innovations that market wishes to undertake to alter the scope and reach of financial services. Hence, FICF will be open to both bank and non-bank financial institutions, telecoms, NGOs, and academic organizations.

The following are the objective of FICF:

- Spur innovation and innovative practices that increase access to financial services by the unbanked or the financially excluded. The fund will provide support for pilots and for up-scaling financial services vis-à-vis seed capital and a platform for knowledge sharing.
- Leverage FICF funds to attract private investment. Additional capital will help create a bridge between pilot and roll-out of an innovation.
- Create linkages between successful projects with other funds under FIP and beyond to ensure that pilots can be brought to scale through donor and private sector coordination.

For detail please visit:

<http://www.sbp.org.pk/MFD/FICFGuidelines.pdf>

Director, Bankable Frontier Associates, Mr. Carlos Moya, Banca De Lass Oportuidades and Mr. Chris Bold of CGAP. The speech of Ms. Farzana Raja, Chairperson, Benazir Income Support Program (BISP) & MNA, who could not attend the conference due to NA session, was read by Mr. Noor Rehman, Director, Payments, BISP.

The AFI Global Policy Forum (GPF)

On 28-30 September 2011, the Alliance for Financial Inclusion (AFI) has organized a Global Policy Forum in Riviera Maya in Mexico. Central bank governors, finance ministers and financial regulators from 80 developing countries have met on this forum to set goals for expanding financial services to their populations. The participants reaffirmed the urgency and importance of financial inclusion and announced a framework for their individual domestic and collective AFI network commitment for bringing more of the world's poor into the formal financial sector. The Maya Declaration emerged after a lengthy consultation process among AFI

members, steering committee, and after three days of deliberations at the GPF.

In the Declaration, members recognize the key role that financial inclusion policy plays in bringing stability and integrity, its role in fighting poverty, and its essential contribution toward inclusive economic growth in developing and emerging countries. The Declaration reaffirms the importance of peer-to-peer knowledge exchange and learning among financial regulators and policymakers to help develop and implement innovative and relevant policy solutions.

Orascom Telecom gets License for Waseela Microfinance Bank

Orascom Telecom (Mobilink) has obtained nationwide license to establish a Microfinance Bank to start offering branchless mobile banking services in Pakistan under the brand name of Waseela. Mobilink will start with money transfer services with branchless accounts. However, down the line Mobilink plans to offer more sophisticated mobile banking services that may include saving accounts, merchant accounts, life insurances, virtual online

wallets and so on. Telecom operators find it highly lucrative to offer financial services, especially in a country like Pakistan where less than 10 percent of population maintains bank accounts. With humongous sales and support network, particularly stretched in rural and far flung areas of the country, telecom operators are best placed to offer branchless remittance and saving services to consumers with limited income.

Ufone offers UPayments service

Ufone has introduced funds transfer facility in collaboration with Habib Bank Ltd. Fund Transfer (FT – sending money to other accounts of the same bank) and Inter Bank Funds Transfer (IBFT – sending money to other accounts of 17 partner member banks of ILINK) is a revolutionary product and a ma-

major milestone achieved for the UPayments portfolio. This service enables UPayments active subscribers to transfer funds from their Ufone handsets using their own HBL account to millions of other HBL accounts or any other member bank accounts listed with ILINK network across the country.

Nokia's mobile money vision with Pakistan's MCB Bank

MCB Bank Limited and Nokia Finland have announced that they have signed an agreement for provision of financial services to million of mobile phone users. In this model Nokia will develop a

mobile banking application that can be loaded on all Nokia handsets and that will be preloaded on new models. Moreover, MCB is also exploring options to use Nokia stores as agent locations.

Bangladesh Bank issues mobile banking rules

The central bank in Bangladesh has issued a guideline on mobile banking. The guideline makes it clear that mobile banking will only be allowed if it's bank-led, not telco-led, the Daily Star writes. The Bangladesh Bank has allowed almost all services for mobile banking, including disbursement of incoming remittances, adding or withdrawing cash, and payments to and from businesses, government

departments, and other individuals. Other services that will be allowed include microfinance schemes, overdraft facilities, insurance premiums and deposit schemes. Remittances to recipients in other countries will only be allowed after the central bank gives its approval. The central bank is yet to determine transaction limits.

Google Wallet launched

Google has launched Google Wallet, an Android app that turns your smartphone into a mobile payment system. The company announced the service in May and partnered with Citi, MasterCard, First Data, and Sprint to make it possible for you to tap, pay, and save using your phone with Near Field Communication (NFC).

At first, Google Wallet will only support Citi MasterCard and a Google Prepaid Card, which you'll be able to fund with another payment card. This means you'll be able to tap your phone to pay wherever MasterCard PayPass is accepted. Google

Wallet will also sync your Google Offers, which you'll be able to redeem via NFC at participating SingleTap merchants, or by showing the barcode as you check out.

The mobile app will be able to store your credit cards, offers, loyalty cards, and gift cards, without the bulk or additional weight. When you tap to pay, your phone will also automatically redeem offers and earn loyalty points for you. Google hopes the app will one day store things like boarding passes, tickets, ID, and keys.



Around 16 million branchless banking transactions, worth of Rs. 59 billion, have been conducted during July-Sep. 2011 in Pakistan.





Most of the easypaisa users (69%) are living on less than \$3.75 per day.

The total teledensity reached at 69.0 % in FY 2011 with 109 million subscribers throughout the country.

Leveraging mobile Networks for Widening Financial Access



**“ Coffey International Development Survey on Telenor’s Easypaisa”
Telenor's Easypaisa Penetrating Pakistan's Poor, Unbanked Populations**

In January 2011, CGAP commissioned Coffey International Development to survey 327 Easypaisa customers at 10 locations across rural, semi-urban, and urban Pakistan. Customers answered questions about their use of Easypaisa, their household, and their living condition. This allowed the surveyors to estimate users' approximate income level by comparing their answers to correlates on a nationally representative household survey.

The survey found:

- 69 percent of Easypaisa users live on less than \$3.75 per day (in 2005 PPP adjusted dollars);
- 41 percent live on less than \$2.50 per day; and
- 5 percent live on less than \$1.25 per day.

Found a strong correlation between the likelihood of being poor and the likelihood of not having had a bank account among users.

Customers from all walks of life seemed to value the service and felt that it was making their lives easier.

- Over 90% of respondents rated Easypaisa as highly effective. Less than 10% rated it as moderately effective and almost no one rated the service as ineffective.
- Three-quarters of the respondents (76%) felt the service has a positive impact on their lives and a high majority of users (88%) thought the service was easy to use.
- There are a high number of repeat users: just under two-thirds (65%) of all respondents using the service to send money do so at least once a month.
- It also revealed that 45 percent of Easypaisa users lack access to bank accounts, suggesting that Easypaisa has already achieved relatively strong penetration into poor and unbanked populations.

The Teleco sector had the best year in terms of market penetration—PTA

The latest figures released by the Pakistan Telecommunication Authority (PTA) indicate that the sector had the best year in terms of market penetration. Total teledensity - the sum of cellular, fixed local loop (FLL) and wireless local loop (WLL) teledensities - reached 69.0 percent in FY11 - an improvement of 7.64 percent over FY10. This growth comes on the basis of impressive cellular penetration. In terms of subscriber growth, FY11 was the best year for MNOs in last three years. They signed up 9.7 million additional subscribers in FY11 - a growth of 9.79 percent over FY10. The outgoing year was also special in that Pakistan reached the 100 million-subscriber milestone in July 2010.

Higher subscriber acquisition is visible in the cellular teledensity. MNOs collectively acquired 9.7 million additional subscribers during FY11, primarily because of focusing on rural areas. Although the rankings of MNOs haven't changed, their respective market shares are different from the previous year. Enlarging the revenue stream would be critical. Value added services (VAS) have been here. Mobile financial services are another promising area the industry has not shown much appetite for. Reaching out to the unbanked through the branchless banking platform is a tremendous opportunity still knocking at the door.

Cellular Sector Comparison (Up till June 2011)

		Market Share	Total Subscribers	Subscribers added*
		(%)	(mn)	(mn)
1	Mobilink	30.65	33.38	1.18
2	Telenor	24.49	26.67	2.87
3	Ufone	18.86	20.53	0.98
4	Warid	15.97	17.39	0.46
5	Zong	10.04	10.93	4.22
Total			108.89	9.71

Source: PTA

* July 2010 to June 2011

Pakistan Scores High in World Economic Forum Report on Mobile Financial Services Development Report

The World Economic Forum has released a global report on Mobile Financial Services.

The report has extensive coverage of Pakistan and overall it praises Pakistan's institutional strength and market maturity for Mobile Financial Services. Although Pakistan lacks some regulatory elements within the MFS regulation sub pillar, its institutional environment (which includes elements of regulatory proportionality and consumer protection) scores within the top quintile of the country sample included in this study.

This, combined with the presence of market catalysts such as government disbursements through mobile and robust data collection and monitoring

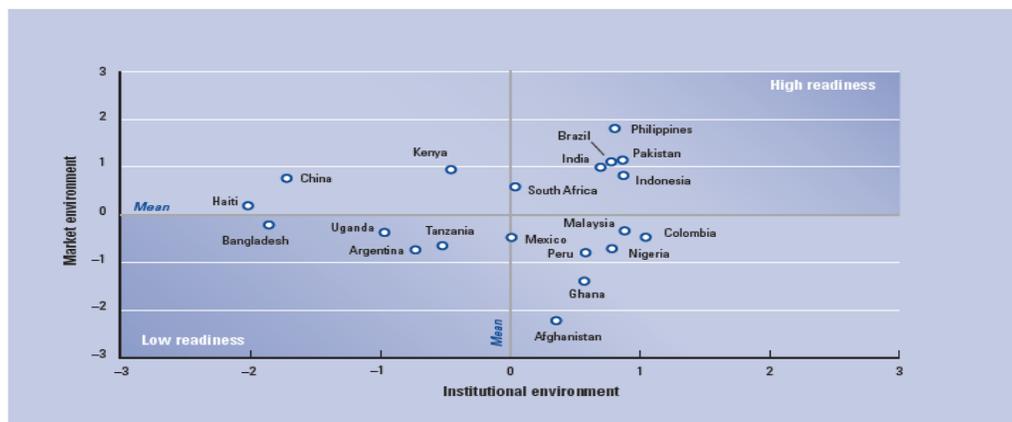
bode well for the increased adoption of mobile financial services in the country. Access to traditional banking services is relatively low, which could further strengthen the need for a trusted and efficient alternative. To bring mobile financial services within reach of more people, further development of its end-user environment seems vital; individuals appear less literate and empowered to adopt these new services. Agent networks have room to develop as they are characterized by low density and difficulty in the enrollment of new agents.

The report titled "The Mobile Financial Services Development Report 2011" can be downloaded from the WEF website (www.weforum.org).

Pakistan has become one of the fastest developing markets for branchless banking in the world.

(CGAP Brief, October 2011)

Figure 1: Countries' relative strength of the institutional and market environment



Source: World Economic Forum.

Pakistan is a Laboratory for Innovation

In a recent CGAP brief, Pakistan has been showed as one of the fastest developing market for branchless banking in the world. The strong leadership of State Bank of Pakistan and its willingness to both listen to the private sector and support for innovation has promoted a dynamic branchless banking sector.

The brief highlights both existing and anticipated businesses and outlines the key challenges and opportunities that are likely to shape the market over the next 12 months. It is highlighted that, the State Bank of Pakistan (SBP) has taken a constructive regulatory approach by providing clear guidance

and being willing to listen to businesses and adjust regulation where necessary. A variety of business models are emerging that involves a wide range of players, including mobile network operators (MNOs), technology companies, and even a courier business. (Notably, a bank remains ultimately liable to SBP in all the models.) The government is further encouraging innovation by piloting the use of branchless banking to distribute government payments. Taken together, these factors make Pakistan a unique laboratory for innovation.

For detail please visit: <http://www.cgap.org/p/site/c/template.rc/1.9.55438/>

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(BB Newsletter Team)