

Branchless Banking in Pakistan: A Laboratory for Innovation

Pakistan is one of the fastest developing markets for branchless banking in the world. Clear regulations and a regulator that is willing to both listen to the private sector and provide incentives for innovation have promoted a dynamic branchless banking sector. Two players have already launched services, and others are waiting in the wings. This 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.

Branchless banking regulation was first introduced in Pakistan in April 2008. From the beginning, 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 is 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.

SBP has issued four branchless banking licenses and is considering several others. Figure 1 shows where various businesses stand in the license application process.

Large-Scale Deployments

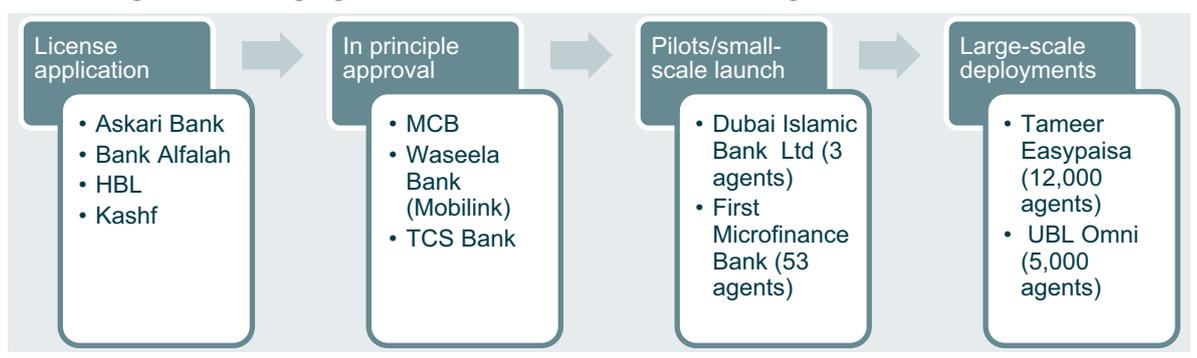
Tameer Microfinance Bank and its parent company **Telenor Pakistan**, a major MNO, launched easypaisa in October 2009. Easypaisa allows any customer, even

someone without a Tameer account or a Telenor phone, to make over-the-counter bill payments and money transfers through easypaisa agents. Tameer has over 12,000 easypaisa agents, two-thirds of which are processing at least one transaction per day. According to easypaisa, 23 million transactions had been processed by the end of July 2011, with a total throughput of Rs 43 billion (US\$500 million). Bill payment initially accounted for the vast majority of transactions, but domestic remittances have seen strong uptake, and now account for 60 percent of throughput.

In February 2010, Tameer and Telenor launched the easypaisa "mobile account," which allows customers with a Telenor SIM card to access a Tameer account and perform a range of transactions directly from their phone. Following the June 2011 relaxation of requirements for account opening (see Box 1) Tameer and Telenor revamped the account-opening process for mobile accounts and ran a major advertising campaign, which resulted in over 500,000 new customers, according to easypaisa.

UBL Omni is a new branchless banking service launched in April 2010 by commercial bank UBL.

Figure 1. Emerging and Established Branchless Banking Services in Pakistan



Box 1. The Regulatory Environment for Branchless Banking in Pakistan

The Government of Pakistan, and in particular SBP, has shown strong leadership in promoting financial inclusion as a policy priority.

After consulting with the private sector, the government issued new branchless banking regulation in April 2008. The regulation allowed for several models of branchless banking by which banks could offer services through a network of agents. This gave banks and their partners the confidence to invest in rolling out services. As services were rolled out, a number of issues that were still holding back sector development came to light. In response to these, SBP issued revised regulations in June 2011.

- The new regulation removed the requirement to capture biometric fingerprint information at the time of account opening for the lowest value accounts. Deploying the biometric capture technology to thousands of agents was expensive and created a significant barrier to customer enrollment. Biometric information could not be verified against the national database and, consequently, did not provide additional security. A digital photo of the account holder is now required instead to confirm the person was there at the time the account was created.
- Under earlier regulation, customers could make a higher value of over-the-counter transactions than they could transact through an account, all with lower customer identification requirements. The new regulation raised the transaction limits on accounts to fix this discrepancy.
- The new regulation also introduced a "level 0" account, with very low balance and transaction limits, which may be opened electronically with no physical paperwork. This will further reduce the cost of account opening.

UBL Omni allows customers to make over-the-counter bill payments and send money to friends and family in Pakistan via a network of agents known as Omni Dukans. The service also offers an account accessible from mobile phones via SMS or WAP and cards (both generic and Visa cards are available). The Omni account requires a minimum balance of Rs100 (US\$1.15) and offers several fee packages, including pay-as-you-go, weekly, monthly, and annual. UBL has won several contracts to disburse payments for nongovernment organizations and government schemes, such as the Benazir Income Support Program (BISP), the government's flood

relief program, and the World Food Programme (see Box 2) (CGAP 2011). UBL reports that at the end of June 5,000 agents were disbursing payments to 2 million recipients under these programs. Recently, UBL started accepting loan repayments for microfinance institutions (MFIs) and providing cash management facilities for businesses. As it is with easypaisa, a major challenge for UBL is getting customers to sign up and transact via accounts instead of relying on over-the-counter transactions.

Pilots or Small-Scale Launches

First MicroFinance Bank (FMB) was the first bank in Pakistan to experiment with branchless banking. It received special permission from SBP to collaborate with the Pakistan Post Office on a pilot in March 2008. For the pilot, FMB loan officers were stationed inside post office branches for loan disbursement and collection, allowing FMB to expand far more cheaply than it could were it to open new branch locations. FMB reports that it has now deployed staff in 52 post office locations and has disbursed 162,000 loans amounting to US\$29 million. Loan officers report to the nearest FMB branch; they do not have an electronic system for recording transactions undertaken at the post office. There are no plans to scale up the service.

Dubai Islamic Bank Pakistan Ltd, which targets high net worth individuals, was awarded a branchless banking license in April 2010. It plans to operate low-cost channels for 50,000 existing customers in schools, business districts, residential areas, and shopping malls. According to the bank, service is in the pilot phase at three sites and will likely expand to 25 locations by year end. The service will not target the mass market.

Anticipated Market Entrants

Mobilink is the largest MNO in Pakistan, with 32 million SIM cards issued at the end of 2010 (Pakistan Telecommunication Authority 2010). It has had two unsuccessful attempts at launching a branchless banking service in Pakistan to date: the first with the Pakistan Post Office and the second with Citibank. In

its third attempt, Mobilink and its parent company, Orascom, received a license for a wholly owned microfinance bank—Waseela Microfinance Bank Limited—in September. It is anticipated that the new bank will soon apply for a branchless banking license and that it will roll out a business model that closely resembles easypaisa's with a range of over-the-counter services, such as domestic remittances and bill payments available to anyone and an enhanced proposition, including a mobile wallet for Mobilink customers that they can access from their phone.

TCS is Pakistan's biggest logistics and courier company. With 400 outlets, it has a larger footprint than DHL, and it has a strong brand. TCS has long aspired to make use of its agent network and convert its couriers into "barefoot bankers" who deliver financial services to customers' doors. TCS has resisted signing an exclusive agreement with any one commercial bank and has decided, like Mobilink, to apply for its own banking license. SBP has required a business plan for a full-service microfinance bank. If Mobilink succeeds, it will be the first courier company in the world to offer financial services.

Bank Alfalah and its sister company, mobile operator Warid (both owned by the Abu Dhabi Group), might be expected to be an ideal branchless banking partnership. Bank Alfalah has shown its commitment to branchless banking by distributing both flood relief payments and participating in the BISP mobile banking pilot (see Box 2) on a smaller scale than UBL. There have been reports that Warid is in merger discussions with other telecommunications companies in Pakistan, which has the potential to delay any plans the group might have.

Askari Bank is a second-tier bank with 235 branches that is 50 percent owned by the Army Welfare Trust and 50 percent owned by private investors. Askari has signed a deal to develop a branchless banking venture with Zong (China Mobile), the smallest but fastest growing MNO in Pakistan. The service will be jointly branded and will initially target army salary disbursements as a way to encourage both soldiers and their families to sign up for accounts. The plan would be to recruit agents in strategic locations near army barracks. Askari and Zong are exploring

Box 2. Government Payments and Branchless Banking

There is a lot of interest in government-to-person (G2P) payments as a means of promoting financial inclusion in Pakistan.

- Following the military action in the Swat valley in May 2009 the Government of Pakistan and the World Food Programme worked with UBL to issue automatic teller machine (ATM) cards that were used to make payments to 12,000 beneficiaries.
- After the floods in August 2010, the government worked with UBL, Bank Alfalah, and HBL to issue Visa branded cards to nearly 1 million victims who had lost property. Beneficiaries could withdraw money at ATMs or use their cards to purchase goods.
- BISP is Pakistan's flagship social cash transfer program with 2.2 million beneficiaries. Two pilots use branchless banking agents. The first uses a card with a barcode on the back that is read with a scanner. The second uses mobile phones. Four banks (UBL, HBL, Tameer, and Bank Alfalah) have agreed to provide a combined total of 180,000 free mobiles to beneficiaries in order to be included in the pilot. At present the pilots do not allow funds to remain in the customers' accounts or for them to transact from their phone.
- SBP, in partnership with DFID, has recently announced a Challenge Fund that will provide grants to other government departments to allow them to experiment with financially inclusive payment arrangements.

promotions, such as free SIM cards to anyone who registers for an account.

MCB is a large commercial bank with over 1,100 branches. Although it applied for a branchless banking license early on, it has not yet rolled out an agent network, because it is still unsure of the business case. It has developed a mobile banking interface for existing customers, powered by Fundamo. This interface is now used by 150,000 customers and has processed Rs 7 billion (US\$80 million) in transactions. MCB has recently partnered with Nokia to develop a mobile banking application that can be loaded on all Nokia handsets and that will be preloaded on new models. MCB is also exploring options to use Nokia stores as agent locations.

Future Challenges and Opportunities

These promising experiments may fail or languish at small scale unless providers can overcome the following challenges:

- Build customer confidence and increase use. Invest in the agent network to ensure a consistent, reliable, and uniform customer experience at all agents.
- Reach commercial viability in the absence of donor funding or government subsidy. Providers need to move beyond over-the-counter transactions to offer products that promote a relationship with the customer and bring in money from float as well as fees.
- Prevent fraud and abuse. Evidence of abuse of branchless banking services could undermine the confidence of customers and regulators and set back the sector, especially in Pakistan, where the financial sector faces particular scrutiny.

Despite these challenges there are a number of reasons to be optimistic that the sector will continue to grow:

- SBP has shown that it is committed to making branchless banking in Pakistan commercially viable.

- If G2P pilots using branchless banking channels are successful and taken to scale, they could provide an important additional revenue source for providers while sending a strong message to customers regarding the government's confidence in these services.
- There is great market potential and early customer adoption and use rates suggest that customers value and are willing to pay for branchless banking services.

The next 12 months will be critical for the newly emerging branchless banking sector in Pakistan. The evolution of the sector will likely yield important lessons for the rest of the world.

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