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MOBILIZING MICRO SAVINGS THROUGH MOBILE WALLETS: PART 1

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INTRODUCTION

The National Financial Inclusion Strategy (NFIS), launched May 2015, bears testament to the government's commitment towards pushing reforms to achieve financial inclusion in an integrated manner to address the current dearth of financial service provision in Pakistan. Only 12 percent[1] adult Pakistanis have some kind of access to formal financial services. In addition to financial services being an important aspect of development, provision of such services is a strategic objective for Pakistan. Credit and savings are the most basic forms of financial services that can be extended to any customer irrespective of their demographics. These financial services also enable customers to invest, save and respond to emergencies or unforeseen expenditures Such Households are typically self-insured to an extent through "under the mattress" or through Rotating Savings and Credit Associations (ROSCAs). Migration to urban areas as a means of diversifying income is also a commonly known phenomenon. Rural households are reliant on local remittances to balance their cash flows. While these strategies are important saving mechanisms for rural households, they are subject to risks including theft, inconvenient or impossible access in the event of an emergency and high transaction costs for remittances.

With the arrival of mobile money in eighty countries since 2005 (2009 in Pakistan), lower socio-economic strata has been introduced to a new product and a channel that allows them to use text messages and other formats used by mobile operators to: store value in an account; convert cash in and out of the stored value account; and transfer value between users[2]. Mobile money offers a one-stop solution to all the risks associated with conventional means of informal saving. It provides: more security than ssavings under-the-mattress; ease and more convenient access and flexibility than ROSCAs, substantially reduced transaction cost and brisk transactions. Empirical evidence from around the globe advocates that mobile money will induce

[1] Access to Finance Survey, 2008, State Bank of Pakistan (SBP)

[2] Mobile Phones and Economic Development in Africa, Jenny C. Aker and Isaac M. Mbiti, 2010, Center for Global Development (CGD) http://cgdev.org/

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a paradigm shift in the way economies of the world approach financial inclusion of the poor. First, mobile money reduces cost and time associated with transferring money which is the most frequent use of mobile money. Just in the first quarter of 2015, 57 percent of all customer transactions were composed of fund transfers[3]. Beyond money transfers, the technology (mobile money) is also being used to create a secure pseudo-savings account where individuals can deposit smaller savings amounts for more immediate needs[4].

Other than providing greater security and increased access, these small savings could encourage individuals to save for certain goals such as setting up a small business. Moreover, they could perhaps instill a behavior of saving and managing money in an efficient manner that in theory is superior to traditional methods.

Overall, in Pakistan's perspective, amidst high exclusion rates, the demand for access to financial services remains high. This is in line with the previous findings on the state of financial inclusion in Pakistan (see BOX 1).

BOX 1: Financial Inclusion in Pakistan – 2008 to 2014

The Access to Finance Study (A2FS), In 2008, for the first time in Pakistan, was a comprehensive consumer survey conducted to gauge the degree of accessibility of financial services to all Pakistanis – rich and poor, across urban and rural landscapes. The survey spanned over 10,000 respondents from all four provinces and Azad Jammu and Kashmir in an attempt to understand customer perspectives vis-à-vis access to both formal and informal financial services. The national representative survey revealed that only 12 percent of the population was formally financially served; 20 percent of the male population has had exposure to a formal channel as compared to 5 percent of the female population and only 3 percent saved formally. Furthermore the A2F survey insights revealed that Pakistan's mobile subscription had already topped 46 million in 2007 and was performing basic functions of making and receiving calls and SMSs. It also ranked preparedness of the population to use mobile technology for financial aspirations at 11 percent.

Also, analyzing the data compiled the Global Findex Database's[5] Wave 2 (2014) we find that only 13 percent of the population (3 percent increase from 2011) has accounts at financial institutions with 21 percent male and 5 percent of the female population being formally served. According to the 2014 Global Findex Data (w2), Pakistan has reached only 6 percent of the market in terms of mobile money. In fact, the rate of financial inclusion in Pakistan remains one of the lowest in the world.

Evidence from around the globe identifies that success of mobile money rests in its capacity to dissolve the conventional brick and mortar branch model to handheld devices with minimal agent involvement, not just its transformation to a less expensive branch model (agents) where users are dependent on agents to carry out transactions for them. The Pakistani industry has promoted the latter since the launch of mobile money. In the recent times there has been an evident push from the providers to try and promote mobile wallets' usage in customers. Most of this has come in the form of compulsory account opening which is why amidst rapidly increasing number

[3] Branchless Banking Newsletter, Issue 15, 2015, State Bank of Pakistan (SBP)

[4] Savings as forward payments: innovations on mobile money platforms, Mas and Mayer 2012, GSMA.

[5] The Global Findex database, the world's most comprehensive database on financial inclusion, provides in-depth data on how individuals save, borrow, make payments, and manage risks. Collected in partnership with the Gallup World Poll and funded by the Bill & Melinda Gates Foundation, the Global Findex is based on interviews with about 150,000 adults in over 140 countries. Source: http://datatopics.worldbank.org/financialinclusion/country/pakistan

of mobile accounts, account usage remains low.

This paper glances at the developments in the branchless banking industry. More specifically, it aims to answer questions such as why has the industry lacked impetus in terms of generating usage in mobile wallets and how can the microfinance industry help increase deposit sizes in mobile wallets due to the fact that there is a large overlap in the target markets that the two sectors are serving. The paper also identifies the steps being taken to synergize the mobile money and microfinance industries to channelize savings mobilized by the non-bank MFIs through branchless banking channels. While focusing on the topic, the note will also shed light on the constraints faced by the industry in raising deposits from the target market and international trends before concluding with recommendations.

The note is based on the insight provided by industry leaders in the both mobile money and microfinance sectors, the public data compiled by regulators and other industry stakeholders.

BRANCHLESS BANKING IN PAKISTAN: ORIGIN STORY

Branchless Banking (BB) represents an alternative to conventional branch-based banking which permits access to financial services to clients outside traditional bank premises and gives financial institutions and other commercial entities to expand financial service outreach to the unbanked communities at reduced costs by using delivery channels such as retail agents and mobile phones[6].

The idea of banking through mobile phones traces its roots back to 2005-06. The State Bank of Pakistan (SBP) was convinced that BB was the way forward and committed to developing regulations[7] to enable commercial and microfinance banks aggrandize their outreach by use of technology. The SBP, delivering on its promise, issued the Branchless Banking Regulations in the following year (2008). These regulations were revisited in 2011 (see BOX 2).

BOX 2: Revisions to Branchless Banking Regulations[8]

With the objective of increasing role of agents and customer convenience, the SBP revised its branchless banking regulations in 2011 making them a complete set of minimum standards of data and network security, customer protection and risk management to be followed by financial institutions aspiring to offer mobile banking services.

Salient revisions included:

1. The introduction of a simplified Level "0" account with low KYC requirements
2. To cater the need of greater transaction volumes, limits on Level "1" accounts were enhanced
3. Requirement of biometric fingerprint verification for BB account opening was withdrawn
4. The amount of bill payments (A service permissible under BB regulations) were excluded from factors contributing to exhaustion of transaction limits
5. A new category of fund transfer from BB account holder to other persons (non-accountholder) was introduced

6 Branchless Banking Regulations, 2011, State Bank of Pakistan (SBP)

7 Expanding Microfinance Outreach, 2007, State Bank of Pakistan (SBP)

8 Branchless Banking News, Issue1, 2011, State Bank of Pakistan (SBP)

BOX 2: Revisions to Branchless Banking Regulations[8] *(Continued)*

6. Remuneration on balances maintained in the BB accounts were allowed
7. Financial institutions were instructed to observe zero tolerance policy against alleged fraudulent agents

Mobile money in Pakistan was introduced as an OTC service and was advertised as an effective way to send/receive money and pay utility bills. The ability to send and receive money became immensely popular in rural areas where a household's cash flow stability is contingent on remittances. Where this phenomenon gave a quick boom to the technology it increased the client's willful dependence on the agent, decreased client's perceived need to get educated about mobile money and increased their vulnerability and chances of exploitation by agents. The purveyors of mobile money deliberately used OTC to build volume in the sector but the transition from OTC to Mobile Wallets has not been as smooth as planned.

By the time these revisions were put into practice, two of the largest BB models operating today had already emerged: 'Easypaisa' by Tameer Microfinance Bank, and 'Omni' by United Bank Limited. Various other BB products/services like First Microfinance Bank's (FMFB) collaboration with Pakistan Post, Dubai Islamic Bank's pilot project, MCB and Askari Bank's products and Mobilink's plans to set up a nationwide Microfinance Bank namely Waseela Microfinance Bank were all either in the pipeline or early rollout stages. In the years following, after the revision of BB regulations by the SBP, the BB arena witnessed the entrance of many new players (see TABLE 1).

Table 1: Chronology of Branchless Banking Developments[9]

Year	Event
2006	• SBP initiated dialogue with international agencies to learn from international best practices • **CGAP** conducted **Branchless Banking Diagnostic Assessment** for Pakistan
2007	• **Expanding Microfinance Outreach Strategy** envisaged deployment of branchless banking solutions for financial institutions • SBP issued **Draft Branchless Banking Guidelines** for the industry
2008	• SBP issued **Branchless Banking Regulations**
2009	• First branchless banking product **"Easypaisa"** was launched • **UBL** received license for branchless banking deployment **"UBL Omni"**
2010	• **UBL** launched **"Omni"**
2011	• Branchless banking regulations were revised • **MCB Bank Limited** rolled out pilot of its branchless banking product named **"MCB Lite"** • **Askari Bank Limited** launched its pilot branchless banking product • **Mobilink** obtained license to set-up **"Waseela Microfinance Bank"**
2012	• SBP signed **MoU with PTA** to enhance collaboration on technical and regulatory matters to promote branchless banking • **MobiCash**, a product of **Waseela MFB** and **Mobilink** went live • **Timepey**, a product of **Askari bank** and **Zong** was introduced to the market • **UPaisa**, a product of **U Microfinance Bank** and **Ufone GSM** was rolled into pilot phase • **Bank Alfalah Limited** and **Warid Telecom's** collaborative branchless banking product entered pilot phase • **Meezan Bank's** product went into pilot testing
2013	• **Habib Bank Limited** launched **HBL Express**
2014	• **Bank Alfalah Limited** and **Warid Telecom** launch **Mobile Paisa** • Transaction ceiling for Level "0" accounts was raised to PKR 50,000 • NADRA Lowered Fees
2015	• SBP gave limited permission for remote account opening

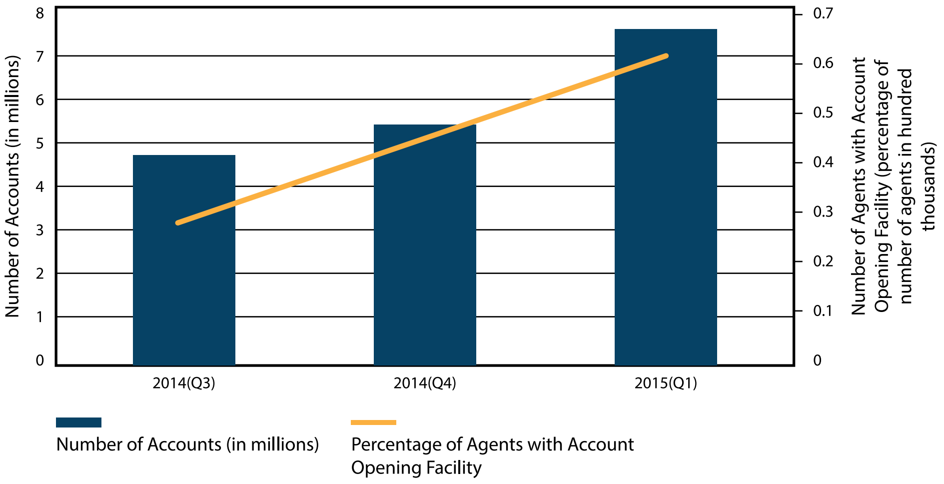
[9] Data compiled from Branchless Banking Newsletter, Issue 2 (2011) & Issue 6 (2012), State Bank of Pakistan (SBP)

In 2013, Pakistan Telecommunication Authority (PTA) mandated biometric SIM verification for all new and existing mobile phone customers. The purpose of this exercise was to bring down SIM issuance without proper antecedents thereby reducing illegal usage of SIMs. To assist hassle free performance of the activity, PTA setup a vast network of Biometric Verification Systems (BVS) initially at Customer Service centers (CSCs) and Franchisees and subsequently at retail outlets to assist a clientele of over 118 million[10] mobile phone subscribers. Anecdotal evidence suggests that near a hundred million SIMs under ownership of a little over 80 million[11] unique CNICs were verified as a result of the exhaustive exercise conducted by PTA.

Current State

The biometric verification initiative from PTA discussed in preceding sections of this note, served as a blessing in disguise for the mobile money market as the underlying BVS infrastructure[12] initially deployed for SIM verification rendered all SIM holders readily eligible for m-wallet account opening. The infrastructure doubled as a launching pad for initial (level "0") account opening and suddenly, m-wallets turned into nifty one minute accounts[13]. This spurted phenomenal growth in the number of m-wallet accounts (see EXHIBIT A) which reflected a growth of 15% towards the terminus of 2014 and a staggering 39.2% growth in the opening quarter of 2015. This was due to the addition of over thirty-three thousand (33,093) agents with account opening facility in a fleeting span of six months.

Exhibit A: Growth in Branchless Banking Accounts[14]



Albeit a huge contributor, this growth cannot be accredited solely to one factor. The branchless banking industry has made noteworthy leaps vis-à-vis the diversification of product mix and provision of services. The industry cumulatively offers over 50 (see ANNEX A) services ostracizing the uniqueness of a few overlapping services like Money Transfer and Utility Bills' Payment. This diversification, nonetheless bereft to tap the true potential branchless banking market, shows growth in the right direction. Easypaisa remains industry leader in terms of number of services provided.

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[10] Figures as of August 2015. Data extracted from Pakistan Telecommunication Authority (PTA) official website. Source: http://www.pta.gov.pk/index.php?Itemid=599 Extraction Date: 19th Oct, 2015

[11] The data was verbally communicated by Mr. Kashif Ghafoor, Deputy Director (Enforcement), Pakistan Telecommunication Authority (PTA) over a telephonic conversation. The data will be made available in 2016 via PTA's Annual Report 2015.

[12] The enforcement of biometric SIM verification of all mobile subscribers led to a massive installation of biometric devices at retailer level. This infrastructure is now serving as a front-end tool for customers to open m-wallets through branchless banking agents.

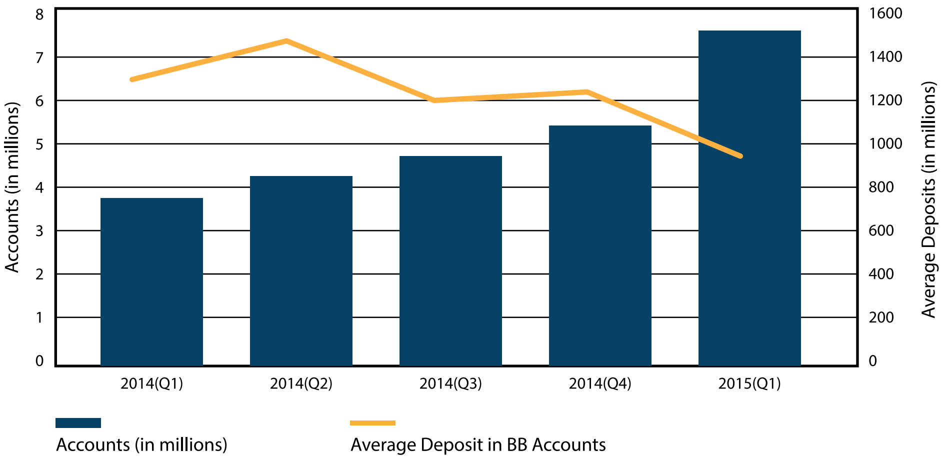
[13] Syed Nadeem Hussain, President and CEO, Tameer Microfinance Bank, dubbed m-wallet accounts 'one minute accounts' due to the swift account opening process enabled by PTA's SIM verification initiative

[14] Data compiled from various issues of the Branchless Banking Newsletter, State Bank of Pakistan (SBP)

Mobile Wallet Growth Trends: Headline Numbers

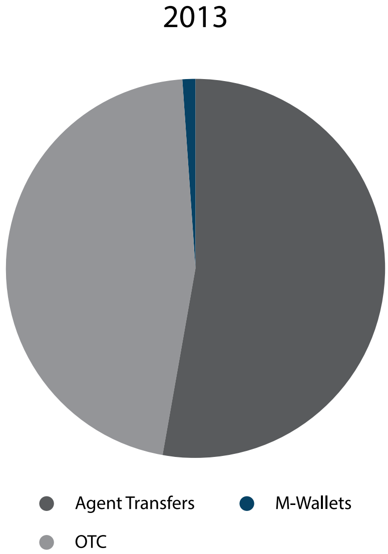
As illustrated in EXHIBIT A, the number of accounts has shown encouraging growth during the last few quarters jumping to 7.5 million. Due to this new account opening, majority of these accounts are initial (level "0") accounts with minimum KYC requirements and transaction limits. This shows that the industry is headed in the right direction of extending financial services to the unbanked. Deposits in m-wallets however remain unaffected by this increase. Average deposits in m-wallets have shown a sizeable decrease (see EXHIBIT B) which indicates that branchless banking providers have opened avenues but have not created enough value to promote usage in m-wallet accounts.

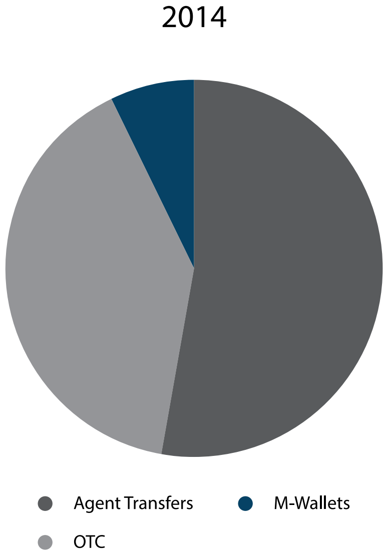
Exhibit B: Decrease in Average Deposit Size



Stats (EXHIBIT C) show that a vast majority of the branchless banking clientele use Over the Counter (OTC) as a preferred means of carrying out transactions which also points towards the fact that m-wallet account inactivity remains an area of concern. Furthermore, around 40% of all branchless banking transactions, in value, comprise of agent transfers for liquidity purposes.

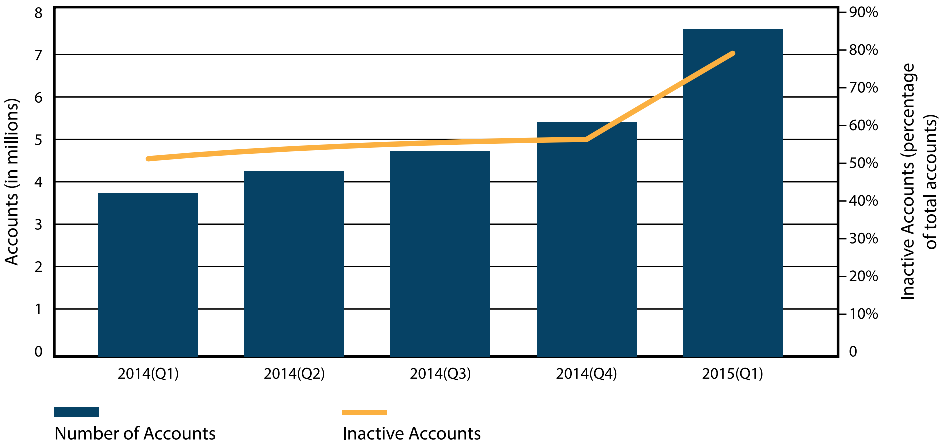
Exhibit C: Distribution of Transactions - Previous 2 years





The above mentioned indicators: decrease in average deposits amidst significant increase in number of accounts; a large contribution of agent transfers to all branchless banking transactions; and a humble contribution of m-wallet transactions betoken inactivity in customer driven m-wallet accounts (see EXHIBIT D).

Exhibit D: Inactivity in Mobile Wallets



Accounts inactivity currently stands at an all-time high with the number of inactive accounts exceeding 6 million. These indications point to: lack of products that cater to clients' needs; lack of trust in electronic payment methods; or lack of education regarding the utility and usage of these accounts. In order to pursue the national strategic objective of financial inclusion, drastic measures have to be taken to improve account activity which will inevitably increase customers' graduation to higher level accounts and push deposits upwards.

INTERNATIONAL EXPERIENCE

With the gradual development of the branchless banking global industry a large number of mobile money services from around the world have started stepping up to the challenge to increase outreach. Channeling savings through mobile money schemes is a globally recognized challenge and the acceptance of any mobile money product, unanimously, around the globe, will depend on: convenience; trust; affordability; and ease of access. While the first steps of global mobile money uptake resemble that of Pakistan, many international players have now started to push the boundaries to introduce innovative products to the market that are tailor-made for the un- or underserved segment. Branchless banking providers globally are focusing on savings as an area where activity needs to be generated. Micro-savers are being lured to formal saving mechanisms by developing need based products. There is also an increasing emphasis on linking informal savings to formal channels thereby capitalizing on the trust this segment has on informal means of savings.

Mobile money providers approached challenges of proximity by expanding their agent network. A case in point would be M-PESA which maintains and operates an extensive network of over 81,000 agents across Kenya. The growth of this network lagged behind that of the customer base in the initial year of M-PESA's operation during which time the number of users per agent increased five-fold, from a low of 200 to a high of 1000. But M-PESA recuperated and accelerated its agent growth in mid-2008 bringing down the number of users per agent to about 600.[15] M-PESA currently boasts 150 users per agent (12.2 million customers served by 81,000 agents) which is even lower than their starting point of 200.[16]

[15] The Economics of M-PESA, William Jack and Tanveet Suri, 2010

[16] Safaricom Limited FY14, May 2014. Source: http://www.safaricom.co.ke/images/Downloads/Resources_Downloads/FY_2014_Results_Presentation.pdf

It has also been identified that mobile money schemes are not yet bringing a bank on a mobile phone interface and most customers globally are offered a subset of banking services through mobile money. Where tailored products for customers are necessary, a growing need for banks and mobile operators to work together has also been witnessed. The most basic bank-mobile partnership is where the bank offers the mobile-money account, like Smart Money in the Philippines. These accounts, however, are managed by mobile network operators (MNOs) and hence restrict access to the bank's broader range of services. A fuller integration can be witnessed in M-KESHO, a joint venture between Equity Bank and M-PESA. This has enabled customers to move money between accounts seamlessly and have also permitted access to loan and insurance facilities. M-KESHO has seen impressive account opening though activity on these accounts remains low.

Overall, it still remains to be seen if financial institutions can leverage mobile money platforms to process very low savings transactions, Savings Led Groups (SLGs) present an opportunity for both of the above to reach the very poor while maintaining transactions sizes viable for them. This is more beneficial for the group, in terms of value added to it. Other than transferring liquidity to a safer location, these SLGs will also be able to channel credit for distribution. These elements are features of many Self-Help Groups (SHGs) in India.

While the question of handling low transaction volumes for savings through mobile money still persists, there are also examples of innovations being brought to the global arena that provide adequate evidence for the viability of such models (see BOX 3).

BOX 3: M-Shwari[17]

Probably the most quoted product in the category of financial service provision through mobile money platforms of late, is an innovative product providing a list of banking services through the collaboration between Commercial Bank of Africa (CBA) and Safaricom through its M-PESA service, has taken the Kenyan market by storm. Not just a local wonder, M-Shwari has piqued the interest of mobile money watchers looking for the next innovation to drive global financial inclusion.

Lauded rightly, M-PESA is serving two-thirds of Kenyan adults with its comprehensive 68 percent market penetration and processes an average of USD 20 million in daily transactions. M-Shwari is the answer to the global question of whether or not mobile money infrastructure can be leveraged to offer high value products of scale. It has already brought the full benefits of a banking product (insurance, deposit and access to credit) to millions of unbanked Kenyans.

The uniqueness of M-Shwari lies in a couple of factors: it's backbone, M-PESA; being the first product that taps into telecommunication information; and developing a credit-scoring for the unbanked in an emerging market all make it a one-of-a-kind product in the arena of financial service provision through mobile money. All M-Shwari accounts are tracked in a dedicated banking system linked to Safaricom's data and to the bank's core banking system. Even though the account is a bank account subject to full banking regulations, the only way to make deposits or withdrawals is via the M-PESA wallet.

On top of this technically sound infrastructure, the success of this model is also based on the model emulating the way low-income Kenyans manage their money. The product allows customer to save for short term while increasing access to credit options in the future making them feel that their savings are enabling this provision. The product is intuitive and highly interactive (rewards for "good" behavior). Where this product does not eliminate the challenges of education, it represents an enormous possibility for the customers in terms of

BOX 3: M-Shwari[17] *(Continued)*

access to short-term loans and secure savings. TABLE 2 gives a description of the product.

Minimum savings balance	KES 1
Maximum savings balance	KES 100,000 (with just M-PESA KYC) KES 250,000 (with verification of National ID) KES 500,000 (with physical submission of ID) Unlimited (with submission of tax ID)
Savings interest rate	2%: KES 1 – 10,000 3%: KES 10,001 – 20,000 4%: KES 20,001 – 50,000 5%: Above KES 50,000
M-Shwari Lock Savings interest rate	Earns an additional 1% over the rates above
Minimum loan amount	KES 100
Maximum loan amount	KES 100,000
Loan pricing	7.5% loan facilitation fee (no other interest or fees)
Loan term	30 days (renewable one time, with an additional 7.5% loan facilitation fee applied to the outstanding balance)
Cost to move money between M-PESA and M-Shwari	Free
Cost to move cash in and out of M-PESA	Free to deposit, standard cash-out fees apply[18]

The account accrues and pays and interest rate of 2 to 5 percent quarterly, based on the average daily balance in the account. As reported by Kenya's Central Bank, these rates are well above the 1.5 percent weighted average. These rates are also unusual in the sense that interest accumulation starts at a minimum balance of KES 1. Low minimum balance and above market interest rates coupled with savings leading to credit approach has equipped M-Shwari accounts with enough value for customers to use this account to actively save which is why "Increase in loan limit" is the most reported reason for depositing in M-Shwari accounts.

M-Shwari's Lock Savings Account, a fixed deposit account with minimum balance of KES 500 lets customer save for optional terms of one to six months at higher interest rates. The customer selects their term and their goal in terms of savings and can deposit funds from their M-PESA account to M-Shwari accounts seamlessly until they meet or exceed it with an option of early withdrawal at regular interest rates.

This type of flexibility and power to the customer is what has enabled M-Shwari's lift-off. The product is a decent attempt at bringing accessibility, affordability and ease to the customer. M-Shwari has 9.2 million accounts (4.7 million active) with a deposit balance of USD 45.3 million as of December 2014 and has disbursed USD 277.2 million in loans since launch.

M-KESHO is another dedicated platform for mobile banking supported by the M-PESA. The service was launched in 2013 (three years after the introduction of M-PESA) in cooperation with Equity Bank. M-KESHO delivers an integrated bank account with three major services:

[18] M-PESA tariffs can be found at http://safaricom.co.ke/personal/m-pesa/tariffs

[10] Part A of Section 10-M from the PSLM/HIES 2011-12 has been used.

M-KESHO is another dedicated platform for mobile banking supported by the M-PESA. The service was launched in 2013 (three years after the introduction of M-PESA) in cooperation with Equity Bank. M-KESHO delivers an integrated bank account with three major services:

i. Interest earning (micro-savings)
ii. Access to credit facilities (microcredit)
iii. Insurance facilities (micro-insurance).

The service offers seamless money transfer from M-PESA account to M-KESHO account and customers can earn interests of up to 3 percent annually starting from KSHS 1.[19] The customers also have access to credit facilities up to USD 90 payable in 30 days. Insurance is a very expensive service in Kenya and even though people recognize the need for insurance services, they do not pursue it. M-KESO offers its customers with accidental and death coverage facilities covering up to USD 2,000.

Equity bank has a mobile phone application in place that agents and branches can use to open accounts. This application records basic information and a photograph of the individual. Thorough documentation has to be filed at a later stage. Even though account opening and deposits are free, M-KESHO has not become as popular as M-Shwari.[20]

By virtue of such linkages from M-PESA and countless other initiatives like M-KOPO, M-Farm, MedAfrica and Eneza Education, M-PESA has solidified itself as an integral part of Kenyans' everyday life. The fact that a quarter of Kenya's GDP runs through M-PESA says volumes about the relevance of services provided through branchless banking and the potential of mobile money in general.

PAKISTANI MARKET

Our local market, in terms of branchless banking service provision and uptake, trails its international counterparts by some margin. More and more banks are willing to team up with Mobile Network Operators (MNOs) to enable this transcendence from brick and mortar models. The market is firmly supported by regulations and the SIM verification activity that lasted till April 2015 has proven as a great enabler for mobile account opening. The sudden rise in the number of mobile accounts reflects the same. With account opening simplified to just one biometric scan of the thumb, more and more emphasis is shifting towards focused product development which is an area of concern for the current mobile money market.

Deposits in mobile accounts are directly linked with usage of those accounts. If the latter shows no significant increase, the former inevitably suffers and since a large chunk of all BB transactions is comprised of G2P payments, customers are mostly using these accounts for withdrawals. Service providers in Pakistan have identified the need to increase account activity and are shifting towards a go-to approach vis-à-vis customer activity. BB providers are developing linkages and exploring different avenues to promote value and deposits in mobile accounts.

UBL Omni

United Bank Limited's branchless banking solution, Omni, is the second largest name in the mobile money arena currently. The UBL vision is to create a merchant ecosystem that would have the capacity to render cash based transactions obsolete. They envision an environment where everyday transactions such as grocery shopping be-

[19] Interest rates are divided into savings brackets: From KSHS 1 to KSHS 2000 – 0.5 percent; from KSHS 2001 to KSHS 5000 – 1 percent; from KSHS 5001 to 10,000 – 2 percent; and from KSHS 10,001 and above – 3 percent interest per annum applies.

[20] Source: http://www.gsma.com/mobilefordevelopment/wwhat-is-m-kesho-and-how-does-it-work

come a norm and paying through your mobile phone becomes second nature.

The achievement of this environment is a mammoth task and UBL appreciates the challenges that need to be mastered for its actualization. Other than providing traditional branchless banking services (ANNEX A) Omni also provides customized solutions to enterprises. Two such collaborations are with Indus Motors Pvt. Limited and Daewoo Bus Service. Both of these companies hold accounts at UBL and have provided their employees with Omni mobile wallets. At the beginning of each month, at the client's instruction, salaries of all the employees are disbursed directly into the employees' mobile accounts free of cost. Omni also offers their customers an Automated Teller Machine (ATM) and Point of Sale (POS) enabled card which enables the employee to withdraw money or make payments directly.

UBL aims to use this disbursement model to expand their outreach but agree that agent independence will be the deciding factor in terms of cost which can go up to 2 percent of the transaction size.[21]

Kashf Foundation

In Pakistan, non-banked financial institutions cannot take deposits but these institutions can mobilize savings. Kashf Foundation (KF) has recently entered into pilot phase of a savings product in collaboration with Omni, the model is based on Omni's super-agent proposition by adaptation of which the branches of non-banked microfinance institutions double as the BB provider's agents. This not only reduces the Know Your Customer (KYC) requirements on the bank's part, but also creates a small revenue stream for the non-banked institution.

At the time of loan disbursal (not made through Omni) KF branch officials operating the UBL system open an account for their customer. This account opening is mandatory for all customers. Omni has also altered their account activation process which was through verification calls due to the trust and educational constraints of the customers. The account is now activated through biometric verification saving time. After this account activation, customers (mostly female) are encouraged to save PKR 500 (recommended by KF) in these accounts on a recurring basis. No interest is offered on these savings and customers can withdraw this money whenever they need it.

Kashf has reported significant activity in these accounts (4000 active accounts in 4 months) and aims to take this number to 50,000 within the pilot phase. The model has proven to be successful due to a number of factors: (i) clients trust the institution's branches more than they trust agents (ii) branch offices offer swift transaction as opposed to other agents and (iii) it offers females in Pakistani households to save money at a location that cannot be influenced by adverse social factors.

PIN generation and withdrawals are still hurdles this model is facing. KF is in talks with Omni to enable withdrawals that are biometrically verified.[22]

Easypaisa

The brainchild of Tameer Microfinance Bank (TMFB) and Telenor Pakistan, the country's second largest MNO in terms of subscribers, is the largest branchless banking provider in Pakistan. Easypaisa revolutionized money transfer across the nation and is now the most reputed and trusted player in this arena. Over the years, other than being widely used for G2P transfers and repayments from MFI clients (both banked and non-bank), Easypaisa has diversified its product mix continuously bringing in newer

[21] As communicated by Mr. Omair Imtiaz (VP, Product Manager) and Mr. Muhammad Rizwan (Assistant Product Manager), United Bank Limited (UBL)

[22] As communicated by Syed Yasir Arjumand (Manager Finance), Kashf Foundation (KF)

products for customers through its services (nearly fifteen in number).

Easypaisa also boasts being the sole BB provider with a specialized savings product among other deposit driven services. Their savings product, Khushaal Munafa offers savers up to 5 percent interest per annum on an average savings balance of over PKR 2,000. The profit offered to the customers is calculated on a daily basis and is transferred to the mobile account at the end of the month. The accounts, however, are subject to withholding tax and Zakat deduction.

Another lucrative offering is Khushaal Bema, a savings product through which Easypaisa mobile account holders can acquire life and accidental health insurance of up to PKR 1 million starting from a savings of PKR 2,000, free of cost. The product also offers a monthly amount of PKR 5,000 to a nominated person for 5 years in case of accidental death to customers who maintain an average minimum monthly balance of PKR 25,000.[23]

Easypaisa has a very busy pipeline in testing and pilot phases. They have had a very clear shift of focus to increasing m-wallet activity driven by deposits/savings and insurance products. Trying to emulate M-Shwari, Easypaisa is trying to increase value in using and saving through m-wallets following a number of propositions. Planning to bring back their decommissioned offering of a GSM incentive (free airtime, messaging or internet) based value in mobile accounts and aspiring to extend credit facilities on mobile accounts. Telenor group has also developed a credit scoring algorithm as a step towards the same purpose which is now being piloted for handset financing in collaboration with TMFB. To date, over 10,000 handsets have been financed through the scheme.

Easypaisa are all in for untethering convention from their products by digitizing informal savings' mechanisms of the lower market. They are currently developing a product that can link up with ROSCAS where the group will be able to set their own target of savings and save flexibly (no minimum payment, no due date) with Easypaisa till the time their target is achieved. Easypaisa offers no interest on these savings but are planning to couple insurance with the product.[24]

Even though Easypaisa are protagonists of the fact that in Pakistan, BB market took flight and gained popularity through OTC transactions owing to which, they will remain to be the primary choice for basic BB products. But their current and planned product suite constituting of products mentioned above and other products such as Sehat Sahara, a cashless health insurance product, indicate that all BB providers in the country share a vision for cashless transactions to take the lead in the near future. This will not be accomplished at the cost of OTC transactions in Easypaisa's view but in parallel to them.

In terms of raw potential, both the sectors (BB and Microfinance) have plenty. The BB sector has seen phenomenal growth in the OTC market which was the platform for its launch. Due to the consumer's trust in human operated and cash based transactions, especially in the lower segments of the market, OTC is thriving. This however, does not serve the cause of deposits as consumers mostly use this service to send money that is of immediate use. They also find saving unconventionally more convenient than travelling to an agent to deposit money in their mobile account for savings purposes which also bears cost of travelling and time.

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[23] Sum Assured is divided into brackets based on average monthly balance:
PKR 2,000 to 5,000 – Natural Death (ND):50,000, Accidental Death (AD): 100,000;
PKR 5,001 to 10,000 – ND: 100,000, AD: 200,000;
PKR 10,001 to 25,000 – ND: 250,000, AD: 500,000;
Above PKR 25,000 – ND: 500,000, AD: 1,000,000, Monthly Amount: 5,000 (5years). Monthly amounts are only applicable to last (Above PKR 25,000) bracket.

[24] As communicated by Mr. Fahd Anwer (Head of Mobile Accounts), Mr. Taimoor Ali (Pricing and Strategy Executive) and Ms. Shahbano Hameed (Head of Corporate Solutions), Telenor Pakistan.

Since the birth of microfinance in Pakistan in the 1960s through the Comilla Pilot Project in East-Pakistan (present-day Bangladesh), it has come a long way. With the recognition of its role in growing the economy in the late 1990s, the establishment of Pakistan Poverty Alleviation Fund (PPAF) in 1999 and promulgation of the Microfinance Ordinance 2001 the sector has seen steady growth. The country's regulatory and business environment has only become stronger and has been ranked among the top three since the past four years.[25]

It is due to such developments that the sector is poised to achieve 10 million borrowers resulting in the upsurge of penetration rate to 37 percent. This means that the sector is looking at PKR 355 billion in terms of Gross Loan Portfolio (GLP), 30 million depositors (PKR 100 billion in deposits) and 11 million insurance policy holders by 2020. The sector recognizes that branchless banking will be a catalyst for this growth opening the field for possible synergies between the branchless banking and microfinance sector.

Non-bank institutions have already started linking up with BB providers. There are currently over 10 such institutions that use BB channels for loan recovery and a few have also started loan disbursement through the channel while others have shown willingness but consider it infeasible due to the cost. Yet there is room for improvement. Financial institutions need to swiftly move towards branchless provision of microfinance services other than microcredit. The microfinance sector in Pakistan stands at a savings balance of PKR 53.5 billion.[26] Even though 97 percent of this figure resides with MFBs which make up 80 percent of their deposit base by attracting large depositors to fund growth of their portfolio which brings them in competition with commercial banks.[27] This still leaves over PKR 1 billion in deposits that are driven by customers and mobilized by their non-bank counterparts which identifies a sizeable chunk that could be added to the current deposit base on m-wallets provided that they make it opportune for these institutions.

CHALLENGES AND OPPORTUNITIES

BB providers face a number of challenges on effectively raising deposits and to extend micro-saving products to their clientage. Some of these challenges include lack of education, cultural and awareness issues and perceived relevance. However, opportunities are also on the horizon in the form of innovations such as tapping into informal savings mechanisms and expanding agent infrastructure. Some key issues are discussed as under.

Gender Disparity

In the lower income segments of Pakistan, a mobile phone is usually associated to household rather than an individual. In most cases that handset is in the possession of the head of the family which is male limiting the access to financial services. It is also common, especially for females living in rural areas to not a mobile phone because they are not permitted by their spouses to own one. This creates a disparity in financial service provision based on gender where the number of men who have used and have regular access to formal financial services is more than twice as compared to their female counterparts which represent more than 50 percent of total population of the country.

Not only does this make things difficult for the household but also keeps financial in-

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[25] Global Microscope on the Microfinance Business Environment 2013, The Economist Intelligence Unit Limited, 2013. http://citigroup.com/citi/citizen/community/data/EIU_Microfinance_2013_Proof_08.pdf

[26] MicroWatch Issue 37, Pakistan Microfinance Network

[27] Bringing the "Forgotten Half" of Microfinance into focus: Analysis of recent trends and issues in deposit mobilization by microfinance banks in Pakistan, Pakistan Microfinance Network

stitutions from a more credible saver (females). To establish some kind of penetration in this largely untapped female market there need to programs that educate not only females but males on the importance and potential benefits of exposing the adult women of their household to financial services.

Value, Usage and Awareness

Usage in BB accounts has always been under par and increasing it has remained to be a daunting task for providers. It was initially assumed that lack of awareness results in lack of usage but over the years, through various mediums, service provides have established ample awareness in the target markets specially the lower segments but the means is yet to achieve an end. Recent studies reveal that 76 percent of adults are aware of at least one mobile money brand but only 11 percent of those aware have actually used the services.[28] The statistic points towards consumers' lack of perceived value in mobile accounts. Some believe that customers can only see the value in these accounts once they start using them, some argue that usage will increase once customers see the value in these accounts while others are protagonists are of the idea that promotion of usage will go hand in hand with value and awareness.

Mobile money companies have to move beyond basic brand awareness and impart an understanding of the value proposition of mobile money. Many households currently relying on remittances as a source of income do not recognize the benefits. Focused campaigns at explaining the utility of mobile money need to be initiated to convert the client's information into interest in mobile money offerings.

Literacy and Language Limitations

Basic literacy and numeracy is very low in Pakistan, to the extent that reading a phone menu in either English and Urdu is very daunting for a large majority of SIM holders.. If service providers require users to navigate through mobile money menus using the Roman script, they exclude half the population. Even though it is largely included, if mobile money platforms are traversed in Urdu using the Arabic (traditional) script, it could not only increase the number of potential clients but also develop a sense of trust in the mobile money services while decreasing dependence.

Formalizing Informal Channels

Low income segments in Pakistan, like in other countries save mainly through informal savings channels like livestock, gold, ROSCAS etc. According to the Financial Inclusion Insights (FII) Survey, saving is the most performed activity performed with surplus funds. Coupling it with the fact that the unbanked population largely saves at home or through the committee system (ROSCAS) highlights informal pools of funds that need to be tapped through products. Formalizing these "committees" would allow funds to flow through proper channels bringing transparency, accountability and safety to the informal saving ecosystem.

As discussed earlier, a number of non-banked MFPs have been mobilizing savings from their clients which currently amounts to over a billion PKR which is mostly deposited with commercial banks. Mobile money providers can partner with these MFPs to shift these savings to them. This will allow mobile money providers access to deposits of over one billion from already existing channels at a low cost whilst saving the customer from the inconvenience of physically going to multiple places (MFI Branch for disbursement and bank branch for deposits).

[28] Financial Inclusion Insights Survey Wave II, 2015 http://finclusion.org/wp-content/uploads/2014/04/InterMedia-FII-Pakistan-Wave-2-Wave-Report1.pdf

Product Diversification

Clients need savings products tailored to meet their needs. This requires research and execution backed by supporting information. Mobile money providers currently lack that information of the consumer. They have vast agent networks but "Knowing" the customer is still a gap that needs to be filled. This insecurity is causing mobile money companies to take a gradual and risk-averse approach to product diversification which greatly impacts value in these accounts. This "know your customer (KYC)" gap between the customer and the provider can be filled by MFPs. Since microfinance, in essence, is based on social collateral and most MFPs are relying on microcredit as their flagship product, there is a far deeper level of understanding regarding the lower income segment.

Possible synergies between the two sectors can expand the mobile money product suite and bring products to the market that are convenient, trustworthy and affordable, and offer the right balance between liquidity and discipline. This has largely been wrongly treated as an a la carte menu. For poor clients, a product must deliver on all four factors.

Agent Related Issues

Agent proximity impacts the frequency with which customers are using mobile money. If reaching an agent is inconvenient, customers will only make the effort of commuting to one if absolutely necessary which is either to receive or transfer funds which are usually required for immediate use. Savings, however, is an activity triggered solely by the will of the client and with informal means of savings available and reaching an agent inconvenient, the choice between saving in a mobile money account or under the mattress becomes clear.

From a microfinance perspective, agent outreach in rural areas continues to lag albeit increase in number of agents. Deployment of agents is a tough decision for mobile money providers because there is a cost associated to agent management and licensing an agent becomes difficult in extremely rural areas where a certain amount of daily transaction cannot be guaranteed.[29]

Mobile wallets, in nature, also entail a level of independence from agents. Throughout Pakistan, agents operate on a commission basis and are mostly the only direct source of mobile money education for clients. This gives agents the power to influence a customer's decision on whether or not they should opt for a mobile wallet. It could be the case with mobile wallets affecting the agent's revenue stream agents tend to discourage the use of mobile wallets by telling the clients that all their needs can be fulfilled through them.

Technology Limitations

A mobile wallet should refer to a CNIC holder rather than a SIM holder. The mobile should serve as the means to an end. Consumers should ideally be allowed to use any SIM or even multiple SIMs across accounts and cash in/out locations. This sort of interoperability cannot exist with branchless banking also serving as a means to capture market share for MNOs.

Customer centric design of products of services and products will be at the heart of removing technology limitations from the branchless sector. The technology providers need to allow service customization to allow design that understands the limita-

[29] Number of guaranteed transactions used as a metric to calculate ROI which determines feasibility and viability of agent to be licensed.

tions and inhibitions of the user rather than the capacity of the technology vendor.

Regulation

It is important to have robust Know Your Customer (KYC) regulations that help fight money laundering and financing terrorism and crime. At the same time, KYC requirements that are too stringent can impede growth in uptake.

Merchant accounts (levels 2 and 3) can only be opened in a bank branch. Given the transaction cost of commuting to the nearest branch to open a merchant account, a direct barrier is created to merchant account opening, and prevents the development of a mobile money eco-system where small businesses can accept mobile wallet payments on the longer run.

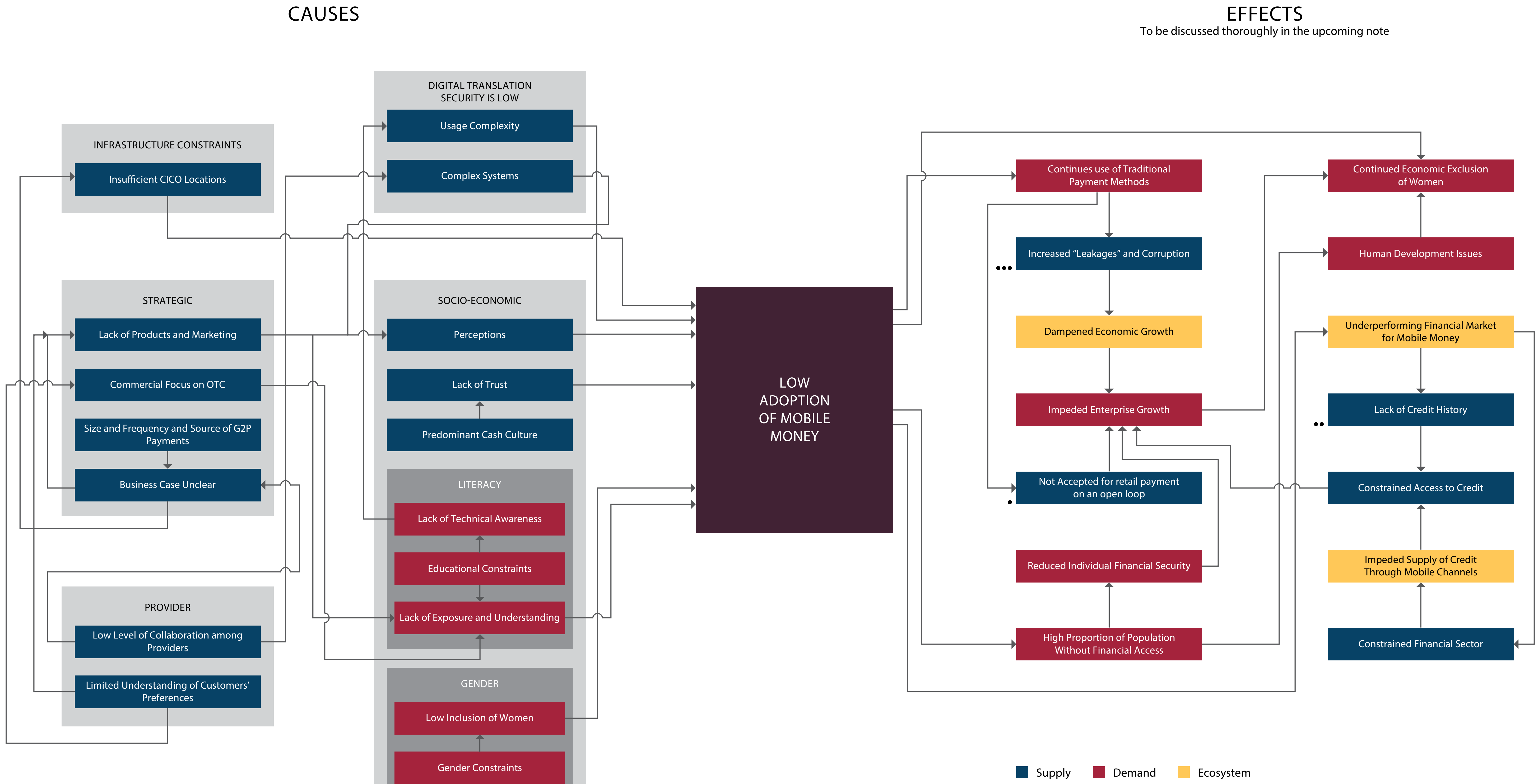
Perception of financial services

Another major challenge on the demand side is the rather negative perception of financial services among the Pakistani population. A 2011 Finscope study found that 71 per cent of Pakistani's think that they can live their lives without a bank account and often prefer to rely on informal financial services; while 43 per cent of the surveyed unbanked population claimed they were unbanked by choice. The surveyed population also expressed a strong bias against borrowing, as 87 per cent of the Finscope study respondents stated that "loans should be avoided as much as possible".

With respect to mobile money, many Pakistanis perceive m-wallet registration as unnecessary, as OTC transactions already cover their needs. According to the InterMedia FITS survey, 59 percent of the surveyed OTC users did not feel the need to register. Stats show that this perception largely remains the same. Wave II of the InterMedia FII Tracker Survey reveals that 53 percent of the population still believes that they do not need to register. The survey also shows that out of those who claim they do not make transactions and hence don't need to register, 55 percent are receiving remittances as a secondary and even primary source of income.

Who is the Customer?

Mobile money enterprises in Pakistan have largely tried to follow the Kenyan success story of mobile wallets. The Kenyan market did not have OTC to begin with. Since genesis, they have been promoting mobile wallets which have resulted in the customer and market maturity we see today. While it is true that non-banked MFIs currently mobilize over a billion PKR in savings and for BB enterprises partnering with these institutions increases access to these funds manifold at an inversely proportional cost, it is also true that almost all of these savings are mandatory in the sense that they are a partial requirement towards acquiring credit from these companies and not willful savings out of income or surplus funds. With 76 percent people having debts that exceed their savings and 84 percent having no surplus money after paying for all the expenses, it is clear that the lower end of the market will not be a long term saver. They will either save for a personal target or for other needs in the near future. Mobile money operators will have to abandon the current one size fits all approach. Operators will have to prioritize and analyze where major chunk of these deposits is expected from and cater to the unique needs of each segment separately because for effective deposit mobilization in m-wallets there needs to be value in these accounts for not just the lower market segments but for the upper segments as well.



• Missing mobile money acceptance infrastructure and open loop
•• No central repository to pull client information
••• Agent related issues on the rise

CONCLUSION

Branchless banking is still a fairly new phenomenon in Pakistan's financial service provision universe. But in a little less than a decade the industry has shown huge promise with over five branchless banking operators contesting for a piece of the pie.

Pakistan's mobile money landscape remains to be a little different as compared to most quotable overseas markets in the sense that over the counter transactions still compose a large chunk of the money in the branchless banking ecosystem. This huge inclination towards OTC indicates clients' behavior to turn to these services only in times of immediate need rather than using these services to further the accomplishment of a long term goal. To achieve this, clients need to be educated to autonomously manage their finances with little or no reliance on a third-party (agent). The usage of mobile wallets not only solves this problem but is also necessary for the maturity of any BB market as OTC alone is not sufficient to fulfill the promise of mobile money. The usage of these wallets remains low albeit rise in the number of m-wallets which points towards the possibilities that either the customers do not see enough value in these accounts due to lack of awareness or there is a dearth of products such as credit provision or tailored savings schemes. Triggering a chain reaction, this lack of value (perceived or actual), results in lack of long-term usage which inevitably affects deposit sizes in these accounts.

The microfinance industry has gained a strong footing within its target market which is also the most frequent user of branchless banking services. Since BB service providers have still not been able to develop the required level of trust vis-à-vis interaction with the client[30] and non-bank MFIs, nonetheless restricted from collecting deposits, are increasingly mobilizing savings amongst their clients. A partnership between the two could prove immensely beneficial for both the industries in terms of increased convenience and decreased cost. The two (mobile money providers and microfinance practitioners) need to work together to device models that are mutually beneficial and also serve the greater goal of financial inclusion. Initial observations suggest that a solution which combines the microfinance industry's depth in terms of penetration and on-field recognition as well as the technical capacity of mobile money providers in a way which is viable for the consumer. The branchless banking industry will have to adopt a go-to approach and proactively engage microfinance practitioners. The BB industry needs to: i) work towards effective resolution of the challenges highlighted by the MF sector for adaption of readily available services and ii) increase flexibility in their systems for customization which will lead to the creation of products and services better suited to clients' needs.

Also, BB providers need to diversify the market they are serving through innovation and introducing products tailored to address the needs of each segment. Furthermore, mobile money needs to digitize the currently existing informal savings' mechanisms such as ROSCAs, tap into small enterprises and other unbanked segments to increase deposits in these accounts.

[30] Branchless banking agent serves the face of the company

ANNEX A

Table 3: Product Offerings by Operator Dependent Providers[31]

Easypaisa	Mobicash	UPaisa	Timepey	Mobilepaisa
• Money Transfer • Bill Payment • Mobile Top-up • Khushaal Beema • Khushaal Munafa • Bank Transfer • International Remittances • Donations • Ticketing • EasyPay • Mobile Account • ATM Cards • NFC Payments	• Money Transfer • Bill Payment • Mobile Top-up • Mobicash Beema • Bachat Account • Bank Deposit • Donations • Mobile Account • ATM Cards	• Money Transfer • Bill Payment • Mobile Top-up • Funds Transfer • Donations • Mobile Account • Debit Cards	• Money Transfer • Bill Payment • Mobile Top-up • Mobile Account	• Money Transfer • Bill Payment • Mobile Top-up • Mobile Account

Table 4: Product Offerings by Operator Independent Providers[32]

UBL Omni	MCB Lite	HBL Express
• Money Transfer • Bill Payment • Mobile Top-up • Life insurance • Funds Transfer • Donations • Merchant Payments • Mobile Accounts • ATM Cards	• Money Transfer • Bill Payment • Mobile Top-up • Merchant Payments • Mobile Accounts • ATM Cards	• Money Transfer • Bill Payment

[31] Listed on provider websites

[32] Listed on provider websites

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