August 2013

Use of Mobile Money in Pakistan

Findings from FITS Study

IN THIS EDITION

Welcome

Dear Colleagues,

At Gallup Pakistan we strive to bring to Pakistani academics and practitioners pioneering research findings from a range of fields in the form of cyberletters.

The purpose of these cyberletters is to create a knowledge community where empirical and evidence based policy and strategy can be formulated for business leaders as well as public policy perspectives.

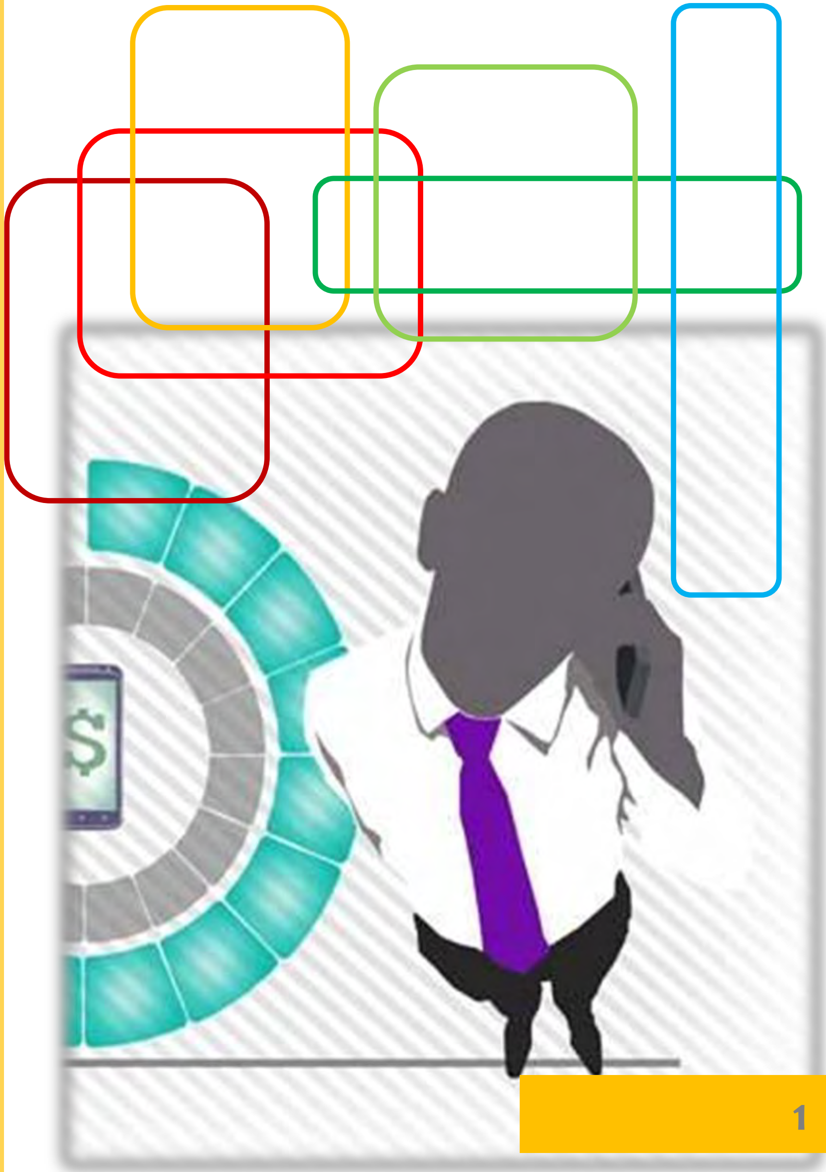
Among many other cyberletters we release are: **Gallup Media Cyberletter** (covering Audience Measurement Research as well as Audience Expenditure Analysis), **Gallup Health Cyberletter** (looking at public health issues and health indicators over the years), **Gallup Weekly Cyberletter** (an omnibus of polls released in the form of daily polls covering a variety of issues and released weekly) , **Gallup HR Cyberletter** (A new initiative focusing on HR Research for organizations targeting middle level managers and informal business sector in Pakistan). Forthcoming Cyberletters are on Financial Inclusiveness Research (in which this Cyberletter looks at Mobile Money Products) and a Cyberletter on informal business research (looking primarily at micro businesses being operated from homes)

The diversity of research issues we look at, distinguishes Gallup Pakistan from other research institutions in the country . Also, all these initiatives are either funded by Gallup itself or by the sister concern Gilani Research Foundation.

We hope that these findings would be of interest to people in the Development field, in telecom providers, in banking sector looking at Mobile Money reshaping the consumer banking industry in the country, Public Policy Practitioners, Government Officials and in general for the wider audience with an avid eye for research on Pakistani Community.

We look forward to suggestions and feedback as always and possible ways to collaborate to strengthen the community of Evidence Based Policy Experts in Pakistan.

Kind Regards,
Bilal Gilani
Executive Director
Gallup Pakistan



WHAT IS FITS?

F (Financial) **I** (Inclusion) **T** (tracker) **S** (Survey)

FITS, the Financial Inclusion Tracker Survey project, a collaboration between global research InterMedia and Bill & Melinda Gates Foundation, is a multiyear research initiative providing critical data, analysis and insights to stakeholders in the mobile money field and in financial inclusion.

FITS surveyed 4,940 households in Pakistan in May through September 2012

FITS aimed to provide the following:

- **Details on the financial behaviors and mobile money habits**
- **Insights on the consumer experience with particular mobile money services**
- **In depth demographic and behavioral information**

Gallup Pakistan has been awarded this study in Pakistan for three years. Among other components Gallup has conducted listing exercise across Pakistan of more than 15,000 HH's which act as a main sampling Frame for the study.

Main Findings

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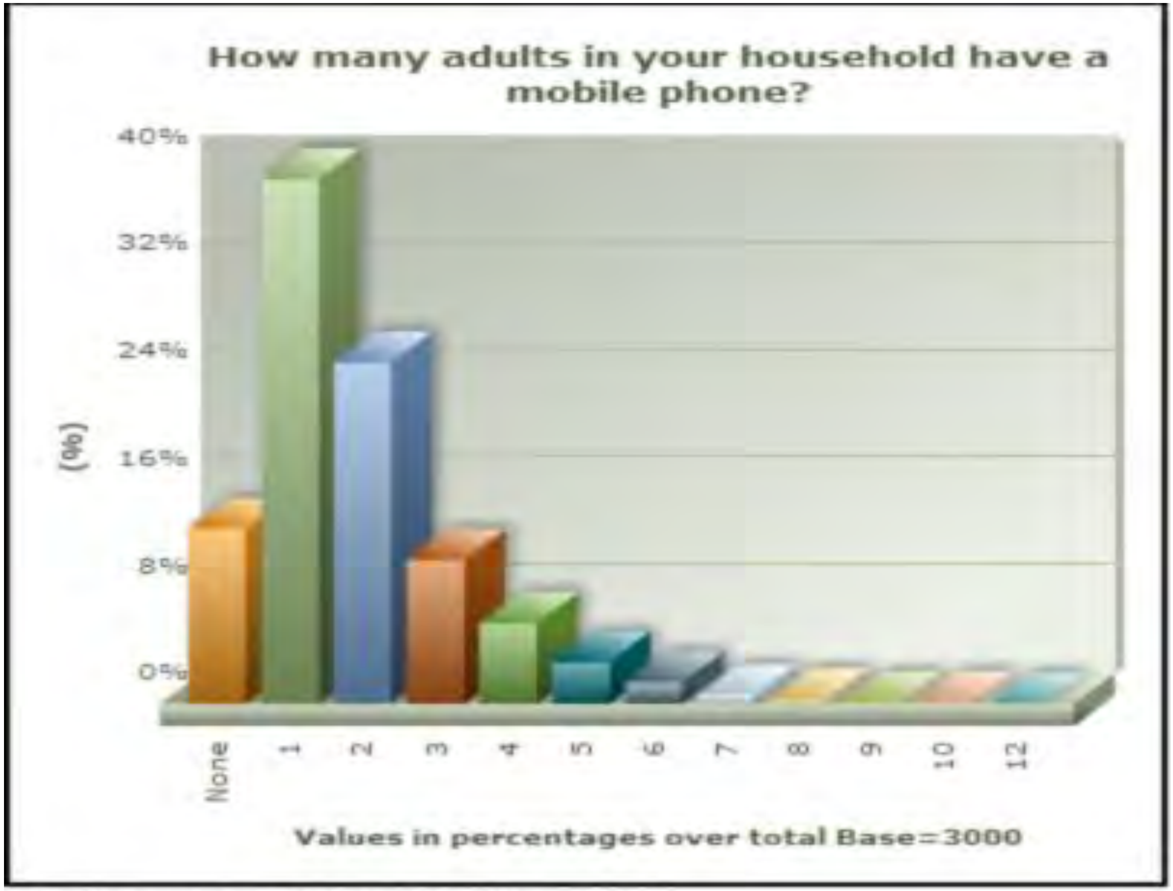
9 in 10 households, including poor, rural and unbanked, have access to a mobile phone and a SIM card. A significant percentage have more than 1 mobile phone user.

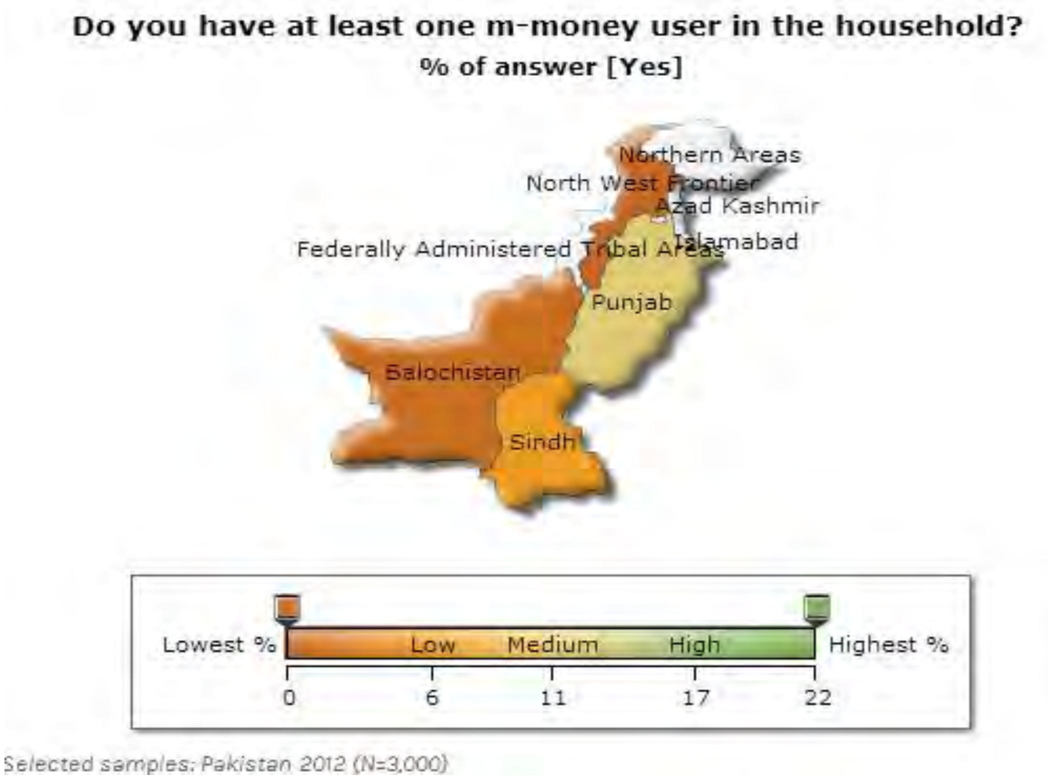


Selected samples: Pakistan 2012 (Base=3000)

Source: Mobile Money Data Centre http://www.m-moneydata.org/

2

Overall, only 8% of Pakistani households count a mobile money user among their members.



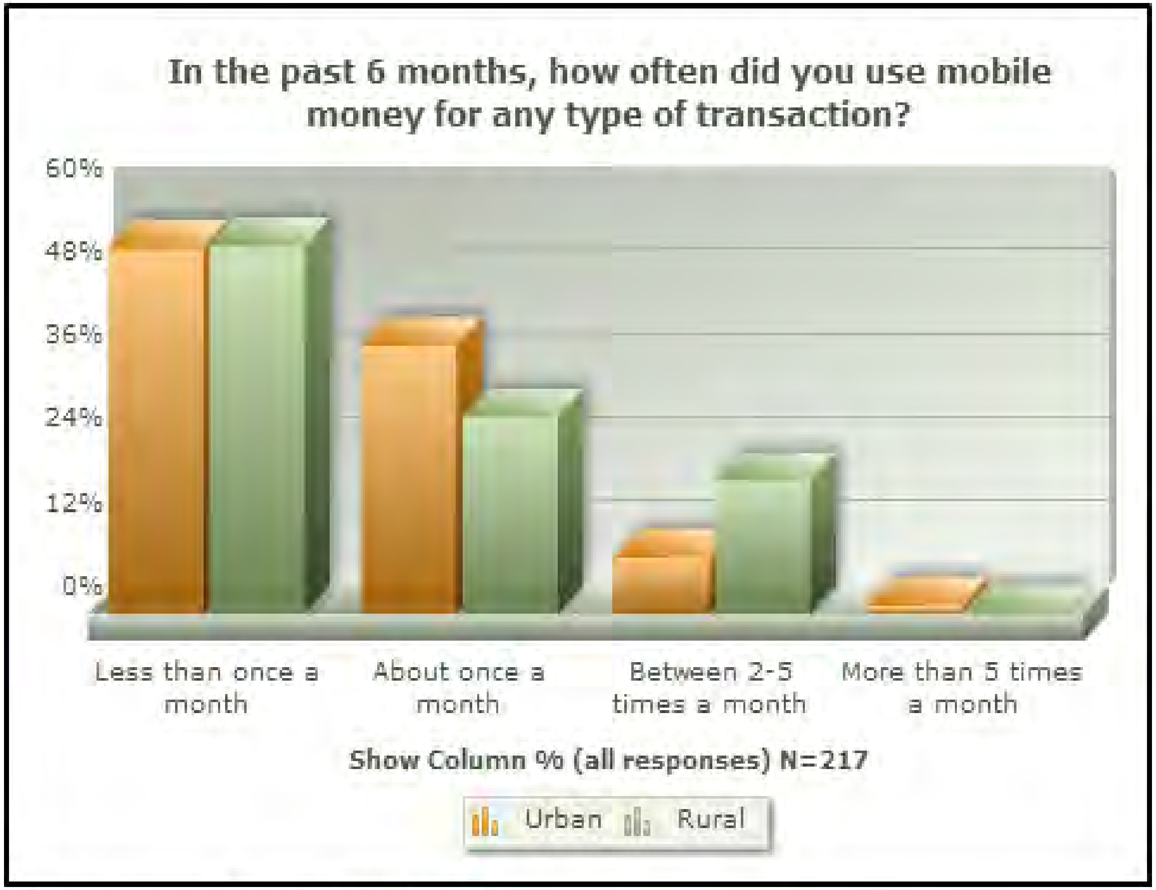
Source: Mobile Money Data Centre http://www.m-moneydata.org/

3

Even among these 8%, use of over-the-counter (OTC) m-money services are predominant. Only 0.3% households report at least one registered mobile money account.

4

Among OTC m-money users, a significant number use these services **at least once a month.** This holds true even for rural users.



Selected samples: Pakistan 2012 (N=217)

Source: Mobile Money Data Centre http://www.m-moneydata.org/

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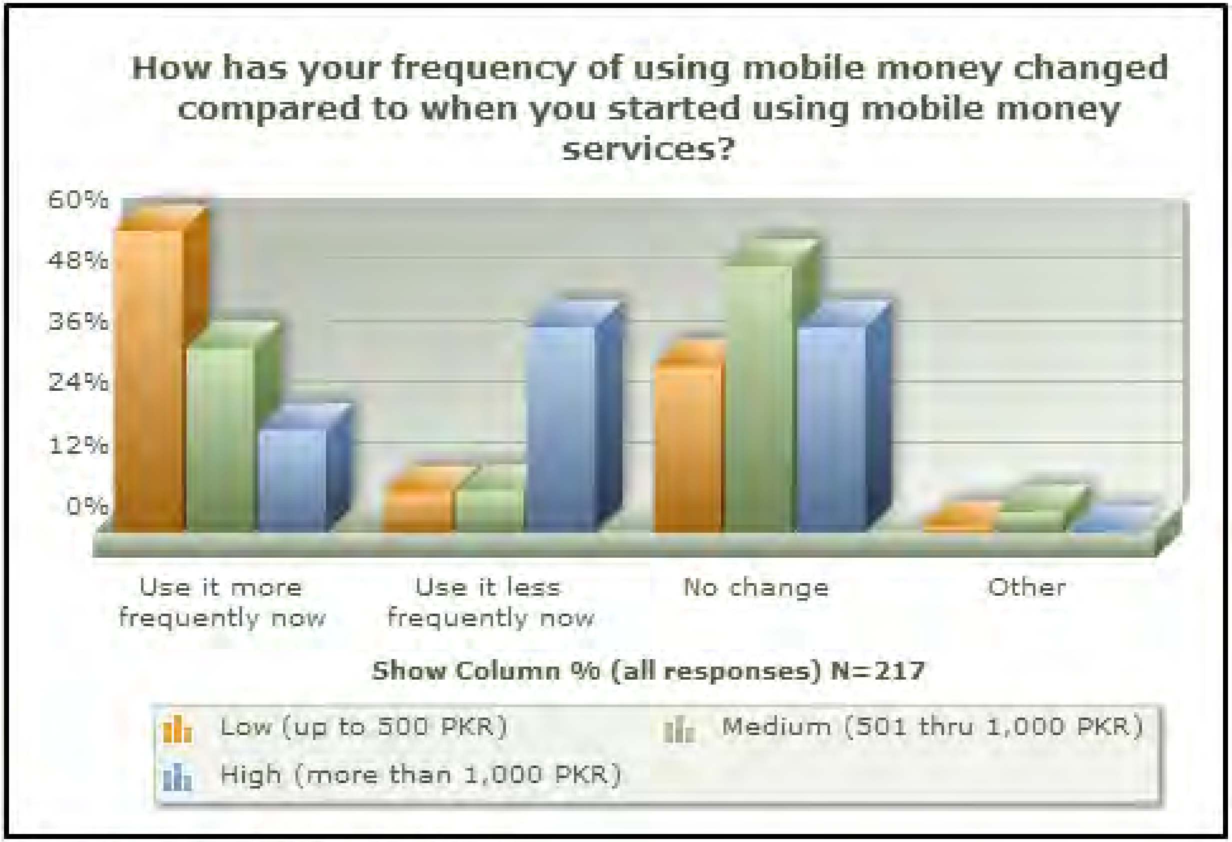
Majority of the people lying in the **lower income stratum** report to have **increased** the use of such services after the first time. However, a good number in the **upper stratum** state that they use it **less** frequently now.

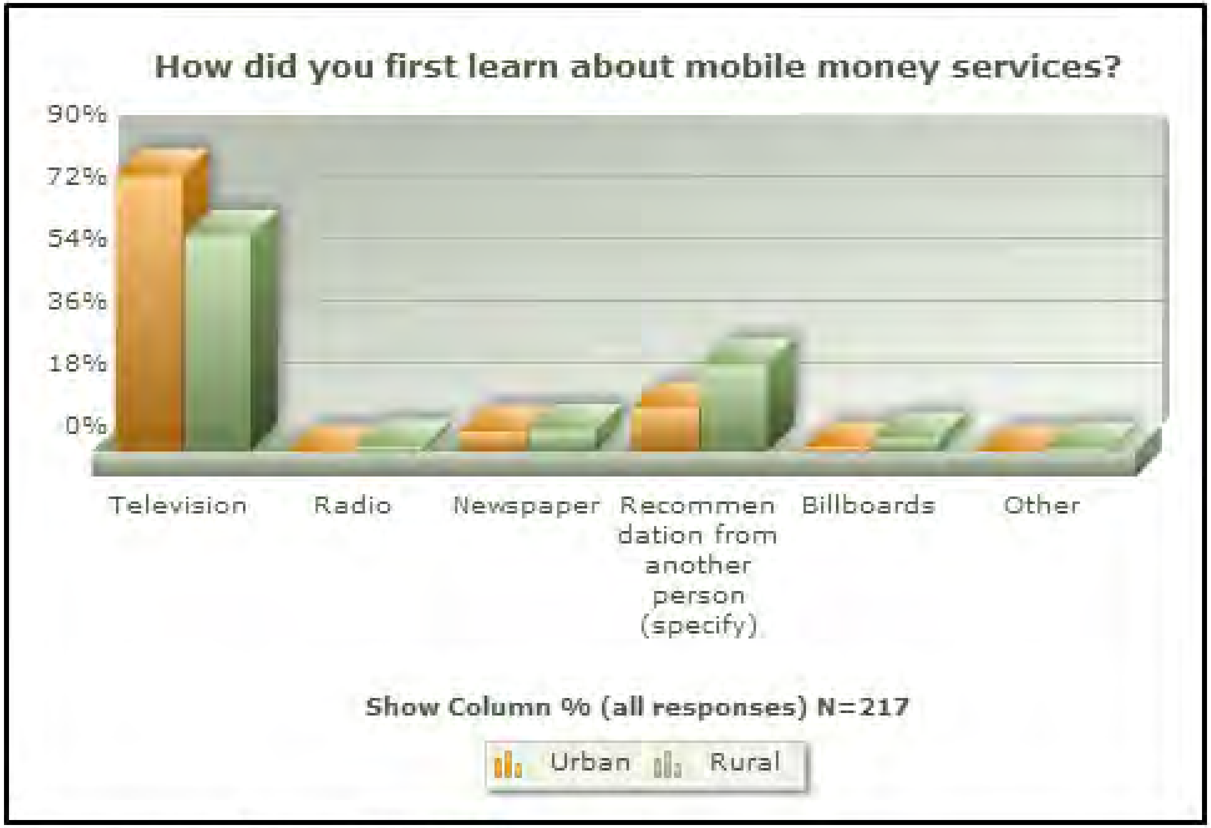


Selected samples: Pakistan 2012 (N=217)

Source: Mobile Money Data Centre http://www.m-moneydata.org/

6

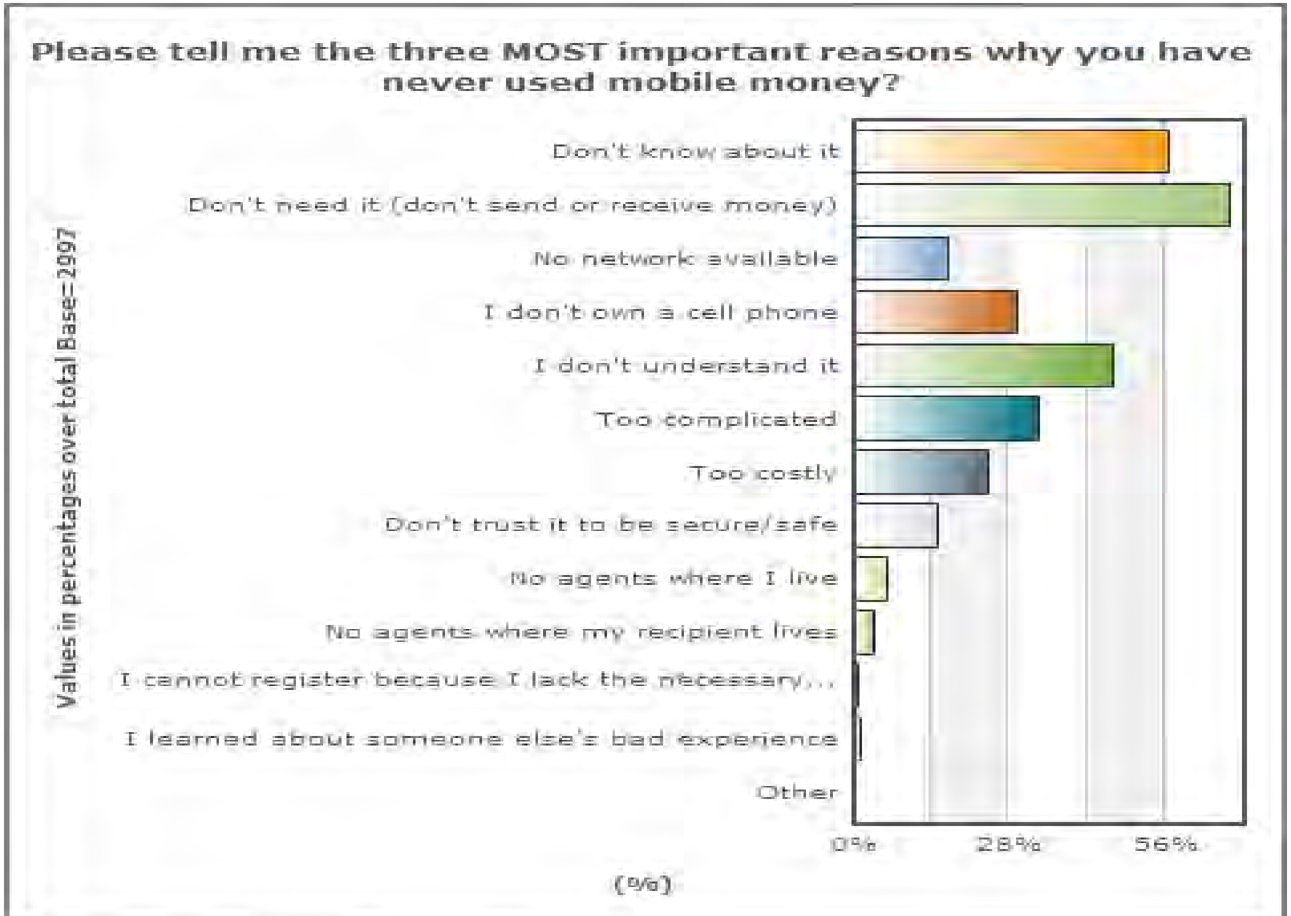
Awareness about m-money services is not yet widespread. However, **television** plays the most important role in spreading awareness.



Selected samples: Pakistan 2012 (N=217)

Source: Mobile Money Data Centre http://www.m-moneydata.org/

7 **Lack of knowledge** about the services is the main barrier in the adoption of these services, as well as a perception among respondents that they **do not need the services** because they do not send or receive money regularly.

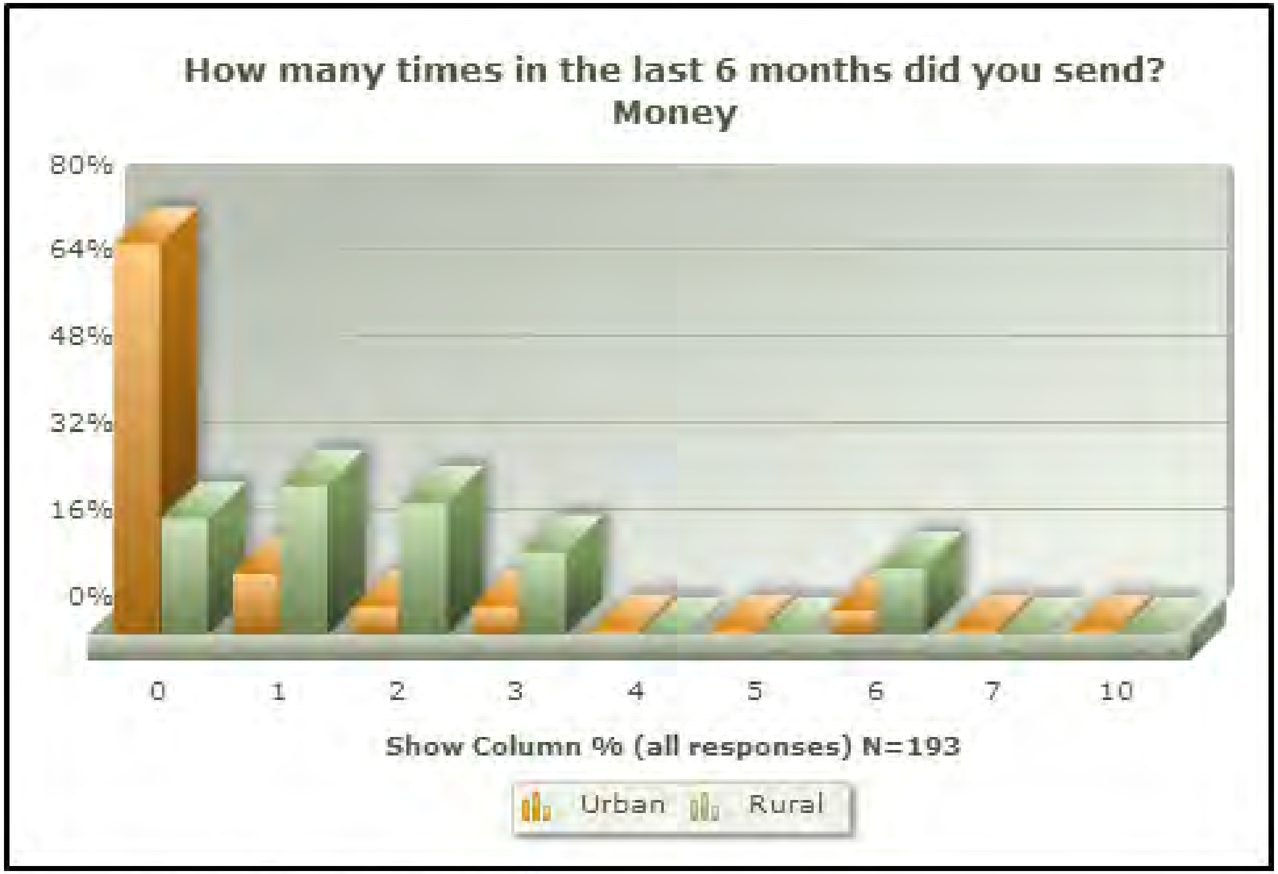


Selected samples: Pakistan 2012 (Base=2997)

Source: Mobile Money Data Centre http://www.m-moneydata.org/

8

Rural dwellers are active money senders, suggesting that m-money services could help them do so more efficiently.

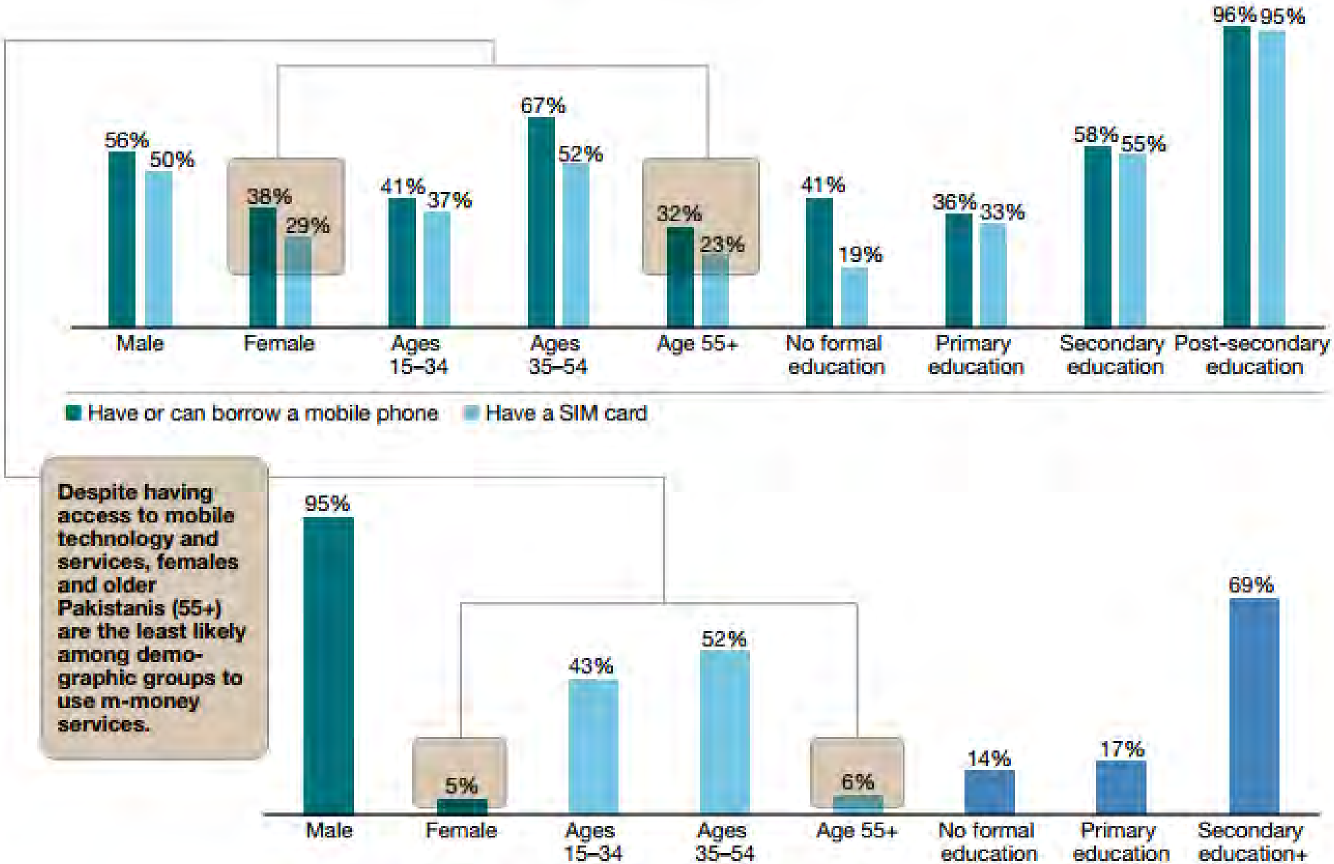


Selected samples: Pakistan 2012 (N=193)

Source: Mobile Money Data Centre http://www.m-moneydata.org/

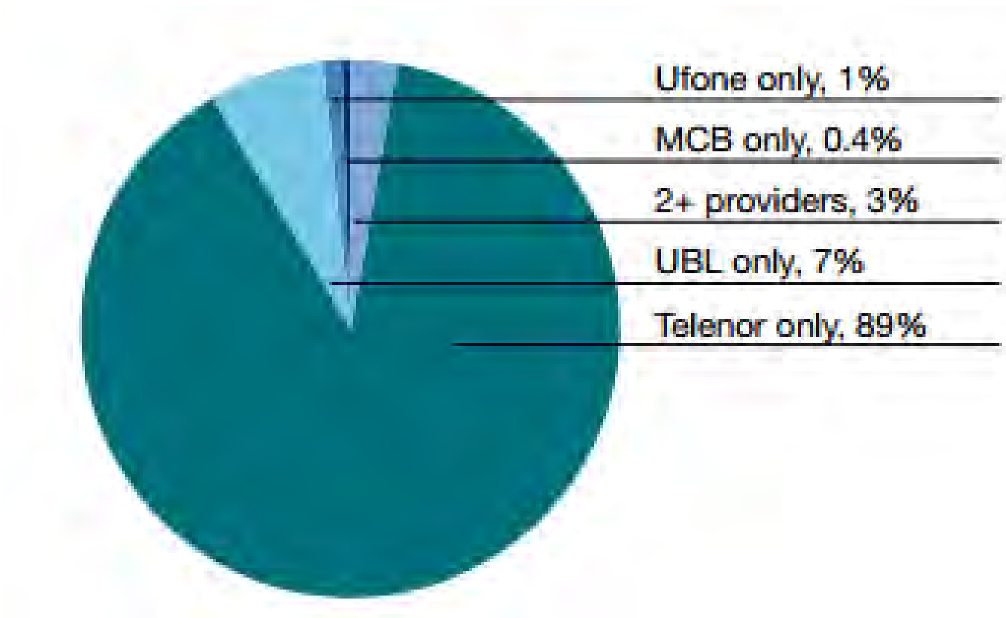
9

Gender, education and age structure play an important role in mobile money use. **95%** of mobile money users are **males** and only **5%** are **females.** Individuals aged 55+ and those with less than a secondary education are the least likely to be using mobile money.



Source: Mobile Money in Pakistan, Use, Barriers, and Opportunities by InterMedia http://www.intermedia.org/wp-content/uploads/2013/06/FITS_Pakistan_FullReport_final_REV1.pdf

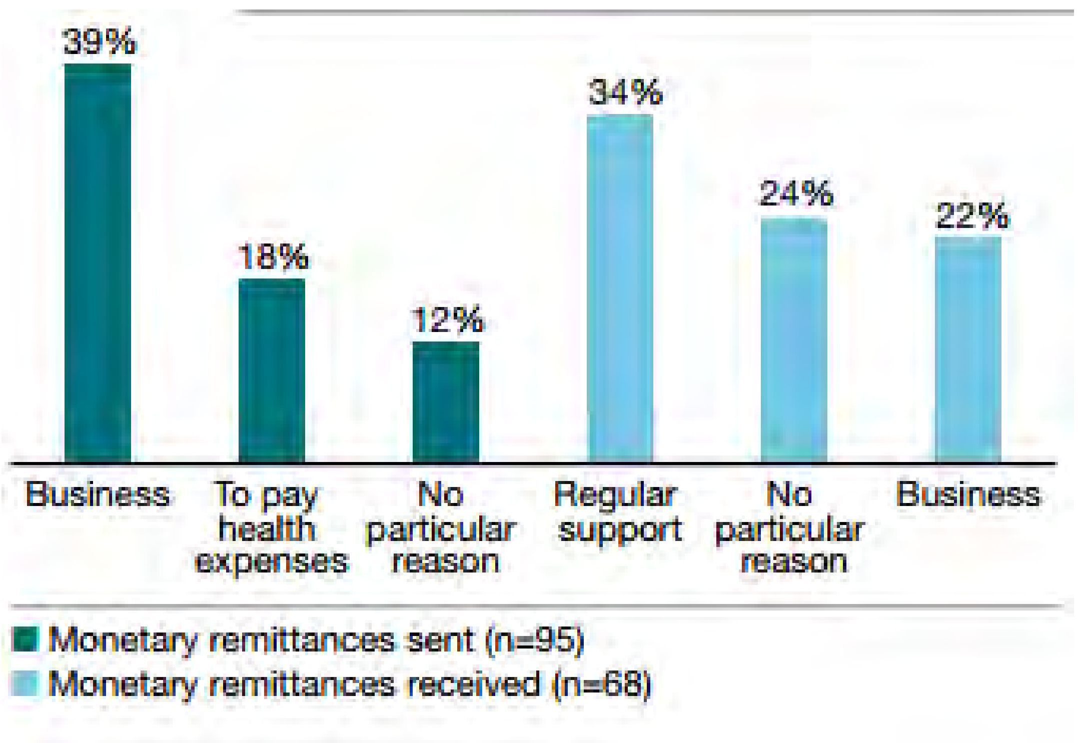
10 The household mobile money market is dominated by Telenor Easypaisa with a **92%** share; the other three mobile money products share the rest of the market. Out of these 92% households, **65%** are located in urban areas, and **80%** live below the poverty line.



Source: Mobile Money in Pakistan, Use, Barriers, and Opportunities by InterMedia http://www.intermedia.org/wp-content/uploads/2013/06/FITS_Pakistan_FullReport_final_REV1.pdf

11

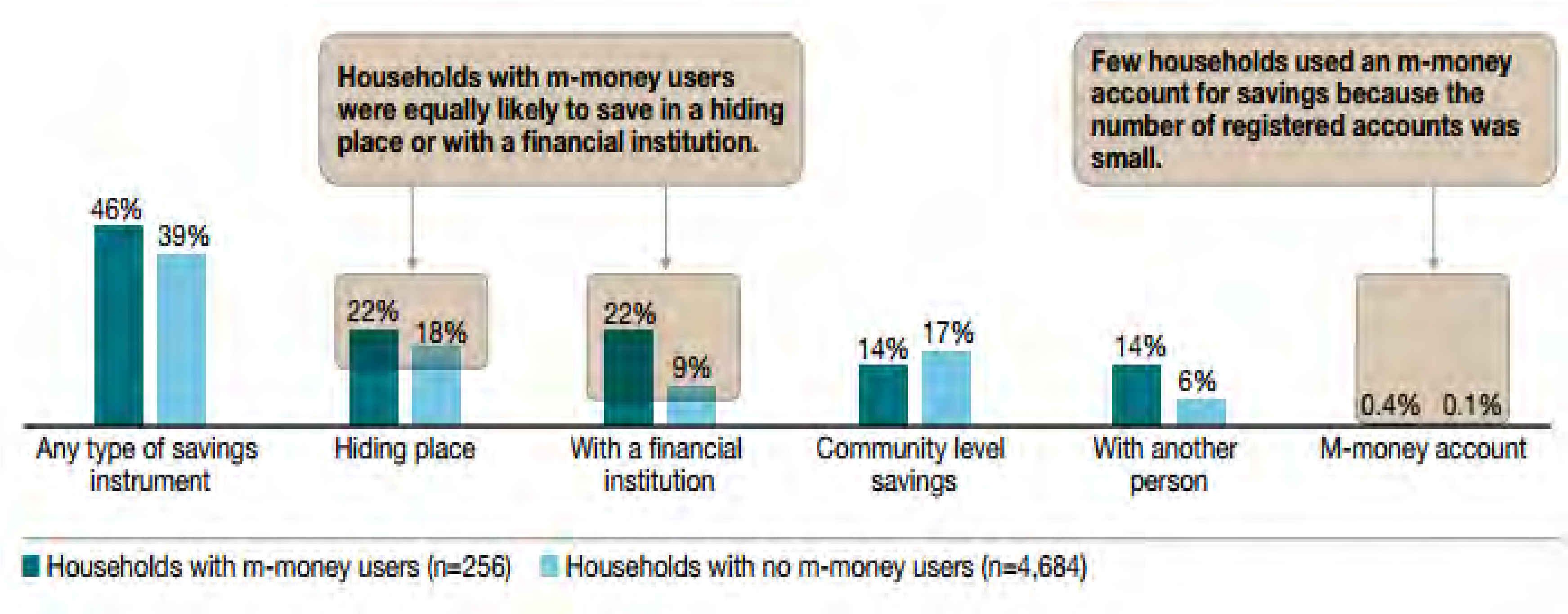
Remittances delivered using mobile money tend to have the following purposes: business or informal loan payments and long distance money transfers.



Source: Mobile Money in Pakistan, Use, Barriers, and Opportunities by InterMedia http://www.intermedia.org/wp-content/uploads/2013/06/FITS_Pakistan_FullReport_final_REV1.pdf

12

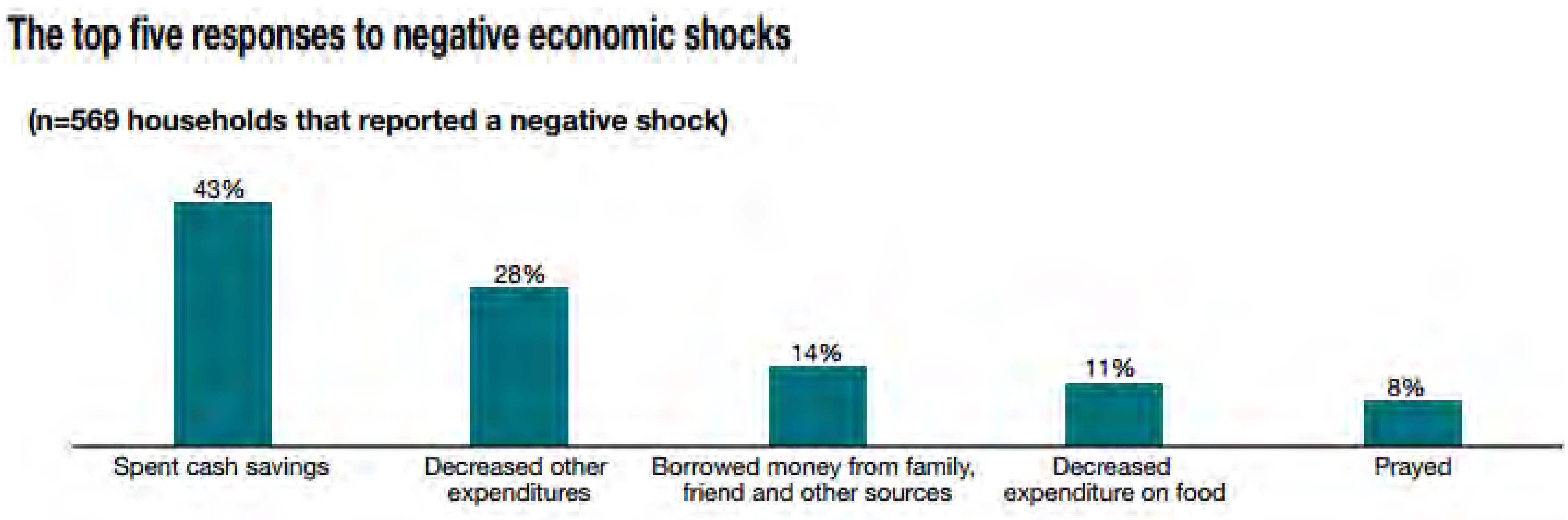
39% of Pakistani household save money. Households with mobile money users are more likely to save with financial institutions (banks or microfinance institutions).



Source: Mobile Money in Pakistan, Use, Barriers, and Opportunities by InterMedia http://www.intermedia.org/wp-content/uploads/2013/06/FITS_Pakistan_FullReport_final_REV1.pdf

13

Receiving remittances in response to a negative shock was rare among households regardless of whether it had mobile money users. However, when remittances are sent in response to a negative economic shock, they have one of the highest median monetary values.

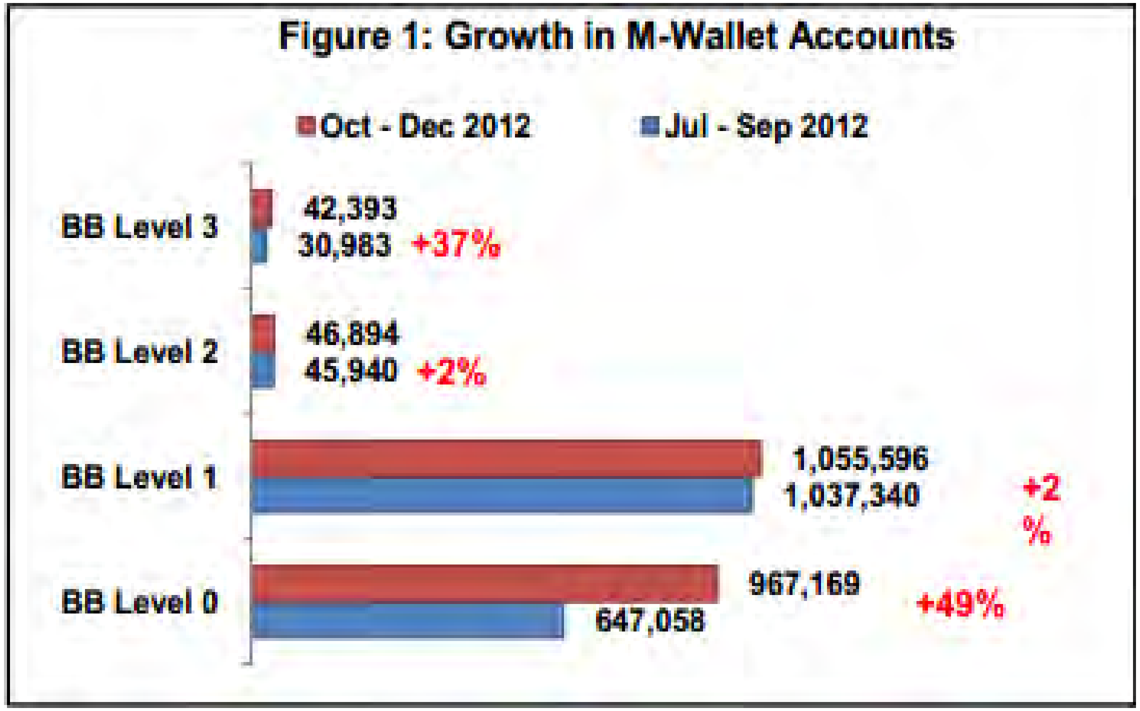


Source: Mobile Money in Pakistan, Use, Barriers, and Opportunities by InterMedia http://www.intermedia.org/wp-content/uploads/2013/06/FITS_Pakistan_FullReport_final_REV1.pdf

State Bank of Pakistan Quarterly

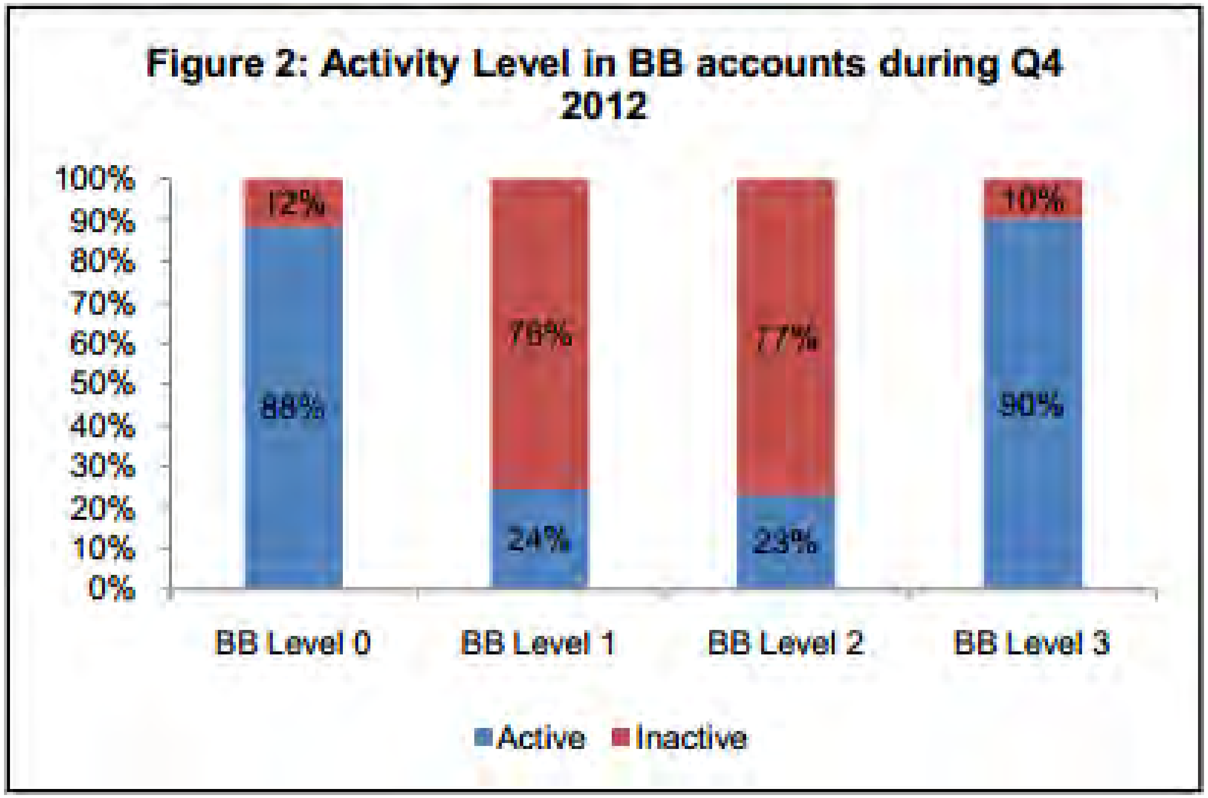
Report (October – December 12)

The quarterly indicates a modest growth in the registration and activity levels in BB accounts. After registering a growth of 20% during the quarter, the BB accounts have reached to 2.1 million by the end of Dec 2012 (Figure 1). This growth was mainly attributed to growth in level 0 accounts (49%) with major contribution from Omni (85%) followed by Easypaisa (14%). Level 3 accounts also registered significant growth of 37% during the quarter mainly due to entry of two new players (Mobicash & Timepey). A marginal growth of 2% was observed in both level 1 and 2 accounts.



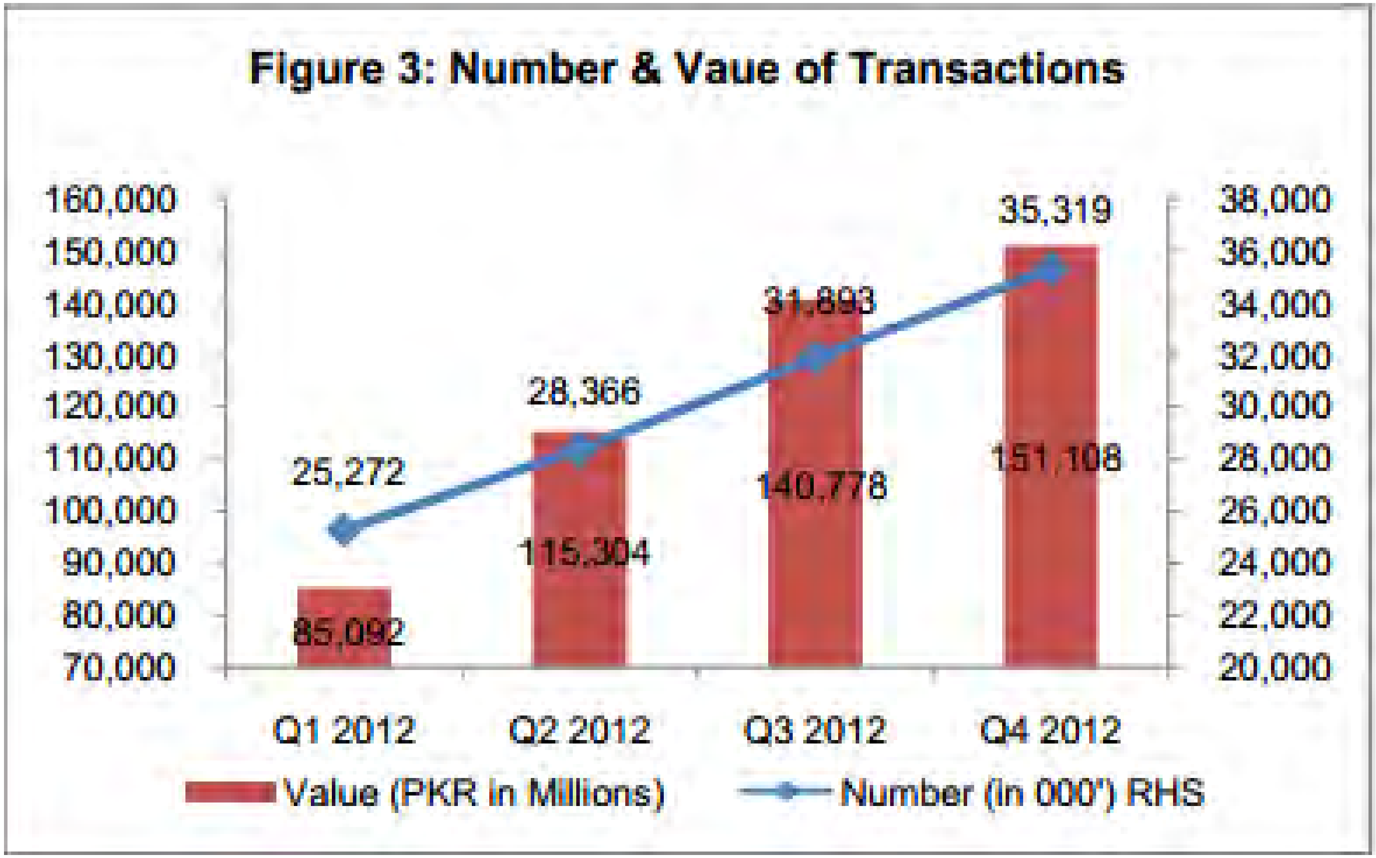
Source: State Bank of Pakistan http://www.sbp.org.pk/publications/ACD/BranchlessBanking-Oct-Dec-2012.pdf

The activity level of BB accounts (as measured by share of active accounts) has increased from 48% in the preceding quarter to 55% during the current quarter (Figure 2). Activity was most prevalent in Level 0 and Level 3 accounts where 88% and 90% accounts were found active respectively. High inactivity was witnessed in Level 1 and 2 accounts where approximately 76% of accounts in each category were found inactive. High level of activity in Level 0 and level 3 accounts may be attributed to the fact that 34% of Level 0 account and 26% of Level 3accounts were opened during the last 3 months (Oct – Dec 2012). However, the uptake and usage in BB accounts is still low as compared to OTC transactions.



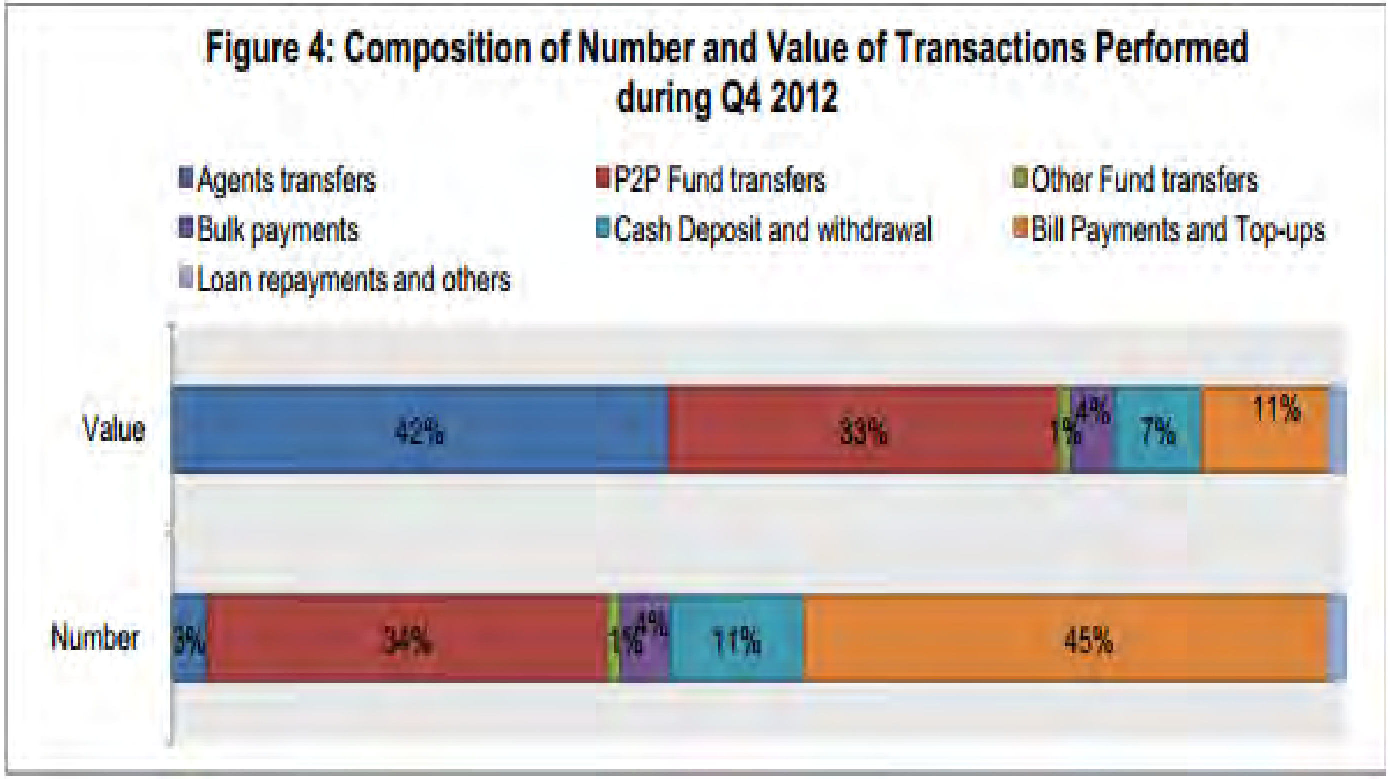
Source: State Bank of Pakistan http://www.sbp.org.pk/publications/ACD/BranchlessBanking-Oct-Dec-2012.pdf

Moreover, number and value of transactions have grown by 11% and 7% respectively indicating a rapid growth through the quarter (Figure 3). The average size of transaction was Rs. 4,278, while the average number of transaction per day increased to 392,433 from 354,367 during the previous quarter.



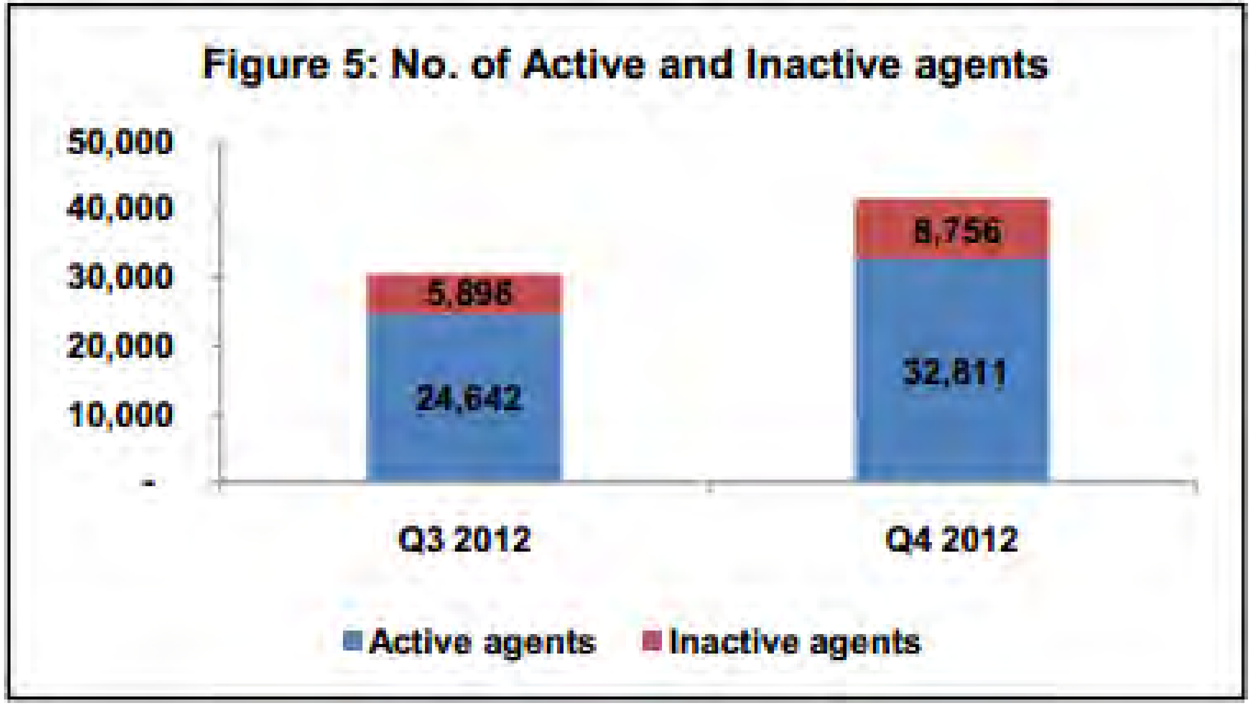
Source: State Bank of Pakistan http://www.sbp.org.pk/publications/ACD/BranchlessBanking-Oct-Dec-2012.pdf

Fund transfers by agents (42%) dominated the value of transactions which were largely focused at liquidity management purpose. Person to person (P2P) fund transfers, the second largest category in fund transfers, constituted 33% share in total value of transactions. In terms of number of transactions, bill payments and top-ups (45%) ranked top, followed by P2P fund transfers (34%) (Figure 4).



Source: State Bank of Pakistan http://www.sbp.org.pk/publications/ACD/BranchlessBanking-Oct-Dec-2012.pdf

Number of agents has registered a positive growth of 36% during the quarter and has now reached at 41,567. A slight increase was seen in the number of inactive agents during the quarter (Figure 5). The share of agents who performed above 3000 transactions during the current quarter was 5%. A key motivation for most of these high performing agents was their involvement in the distribution of welfare funds of the Government during the quarter.



Source: State Bank of Pakistan http://www.sbp.org.pk/publications/ACD/BranchlessBanking-Oct-Dec-2012.pdf

SUMMARY

With the entry of new players, branchless banking services in Pakistan are heading towards growth and healthy competition. However, the success would depend on how the industry is able to overcome issues such as accounts activity level, agent quality and network, mass adoption of customers and their confidence on deposit-led solutions, and reliability of system &technology.

Table 1: Key indicators

Indicators	Q3 2012	Q4 2012	Quarterly Growth
Number of Agents	30,540	41,567	36%
Number of Accounts	1,761,321	2,112,052	20%
Deposits as of date (Rs. In millions)	784	1,055	35%
Number of transactions during the quarter (No. in '000')	31,893	35,319	11%
Value of transactions during the quarter (Rs. in millions)	140,778	151,108	7%
Average Size of Transaction (in Rs.)	4,405	4,279	-3%
Average number of transaction per day	354,333	392,378	11%

Source: State Bank of Pakistan http://www.sbp.org.pk/publications/ACD/BranchlessBanking-Oct-Dec-2012.pdf

New Products of Mobile Money

THE 'KIPOCHI' IN KENYA: Kenya's M-PESA, one of the most innovative money programs in the world, is now making its way into the market of virtual currencies with their new service called Kipochi. Kipochi, a new venture undertaken by Pelle Braendgaard, lets users of M-PESA buy bitcoins. With the help of bitcoins, not only can users buy and sell electronically but also transfer their money across borders. This was earlier not possible with M-PESA.

Launched in 2007, M-PESA is operational in a number of sub-Sahara African countries as well as in Afghanistan and India. However, since each M-PESA network is a separate entity in the country where it operates, cross border transactions are not possible.

At this point in time, Kipochi is only available for users that have access to a computer. However, statements by Pelle Braendegaard assure the citizens that research is being done to make the service accessible to phone users.

CASH ON TAP IN UK: Currently, in the UK, mobile operator EE is launching a new payments service called Cash on Tap. The new product will let users download a mobile application from the Google Play store. This application will however work on only a few selected 4G EE handsets.

The Cash on Tap application is similar to a debit card. It allows users to make NFC (near field communication) contactless payments by holding their smartphone over a MasterCard payment terminal. Alternatively, they will also be able to make online payments, using a virtual MasterCard account linked to the Cash on Tap app.

CHINA UNIONPAY: An innovation similar to the Cash on Tap application in the UK is seen in China. Chinese bankcard association, China UnionPay has launched a smartphone app for mobile payments and financial services in an effort to boost the emerging mobile payments market in China.

China UnionPay's new application enables users to connect NFC-enabled phones with their bankcard accounts, empowering them to pay by swiping their phones at point-of-sale terminals. There already are 1.3 million NFC-enabled POS terminals in supermarkets, stores, subway stations and restaurants in China.

DIEBOLD INC. AND PAYDIANT, US: Collaboration between Diebold Inc. and Paydiant will soon allow consumers to use their smartphones to withdraw cash at an ATM. This eliminates the threat of card skimming at the ATM.

At the ATM, consumers authenticate themselves by scanning a unique QR code that signals the ATM to dispense cash via an encrypted connection to the cloud. No additional hardware on ATMs or point of sale terminals will have to be installed for the usage of this product.

FORTIS MOBILE MONEY, NIGERIA: Nigeria's Fortis Mobile Money and ABC Transport PLC are working to provide their citizens with mobile ticketing and payments. As a result of this product, travelers on ABC Transport routes in Nigeria and West Africa will be able to pay ticket costs and board buses using only their mobile phones. Along with ticketing, users can also top-up mobile airtime, transfer money and pay bills from their mobile devices.

TAXI COMPANIES IN BUDAPEST, HUNGARY: Mobile money is now also being used in taxis in Budapest, Hungary using Cellum's technology. The technology is simple: a unique QR code is assigned to each taxi driver, the passenger scans the driver's unique QR code, enters the amount of money into the application and makes the payment. The driver receives confirmation of payment either through a point of sale terminal or in a text message.

Development and Mobile Money

When the mobile phone was first invented, it started off as a tool for the elite class. It then slowly became a household item and is now being used as an instrument to fight poverty. Innovated by Safaricom, Kenya in 2007, mobile money is a new form of banking, not its' extension. This resulted as a solution to majority of the populations' lack of access to financial services in most developing countries.

The World Bank predicts that by 2020, mobile money could impact the lives of more than 2 billion people in developing countries, heralding a new era of financial services, and hence, lifting them out of poverty.

The mobile phone penetration outnumbers the bank account penetration. For every one bank account holder, there are three mobile phone owners.

Mobile money penetrates into the bottom of the wealth ladder. Not relying on physical infrastructure, mobile money is accessible to the ordinary citizen, leading to his/her financial inclusion. As a result, the capability of the citizen to plan financially is increased, cash flow management becomes better, and savings increase.

Financial inclusion then further leads to social inclusion. Mobile money enables remittances to increase risk sharing and improve consumption smoothing. It minimizes the damage created by shocks, and lets the user benefit from holding on to better times. The World Bank has estimated that reducing commission charges by 2-5% could increase the flow of formal remittances by 50-70%, leading to growth.

Moreover, mobile money advocates transparency in money transactions. It reduces cash in the economy and allows these transactions to be monitored. Opportunities and financial assistance offered to the unbanked through mobile money can reach thousands of entrepreneurs nationwide, creating wealth. Additionally, mobile money is reported to lead to empowerment. In the case of Kenya, mobile money also empowered women by giving them an independent place to store and manage funds.

The link between development and mobile money is evident by the collaboration between First Bank of Nigeria and UNICEF. First Monie, First Bank's mobile payment service, will allow UNICEF to fund the beneficiaries. The collaboration between the two provides a mobile payment solution that supports the drive for eradication of the polio virus from Nigeria.

With the success of the mobile money technology in Kenya, the mobile revolution can prove to be a game changer for most developing countries.

Produced by: **Gallup Pakistan jointly with Gilani Research Foundation**

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Courtesy:

The data in section 1 of the Cyberletter (on FITS project) is borrowed from Intermedia USA website who is the prime research Institution contracted by Gates Foundation, USA to conduct this study. The study was conducted in 2 other countries (Uganda and Tanzania) and their data can be accessed on the following links:

- http://www.audiencescapes.org/sites/default/files/FITS_Uganda_FullReport_LowRes_0.pdf
- http://www.intermedia.org/wp-content/uploads/FITS_Tanzania_FullReport_final.pdf

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