# FIN DEV CYBERLETTER

**OCTOBER EDITION:**

Digitization of Financial Services in Pakistan

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GALLUP PAKISTAN

Affiliated with Gallup International

Pakistan's Foremost Social Research Lab

# EDITOR'S NOTE

Welcome to Gallup Pakistan's FinDev Cyberletter. The principal purpose of this Cyberletter is to inform its readers of the latest developments in the financial industry of Pakistan, particularly in the realms of Financial Inclusion and Digital Financial Services (DFS), where efforts are being undertaken by both private and government sectors. This is the second monthly issue of the FinDev Cyberletter series. Each issue of the FinDev Cyberletter will focus on a particular theme within the broader area of financial inclusion and related topics. This newsletter is divided into three main sections. The sections are:

**1) News Roundup** – this section will cover the latest happenings in the financial services industry in Pakistan.

**2) Research Findings** – constant work is being undertaken by experts and research organizations in order to enhance the understanding of, and to find solutions to the challenges encountered within the financial services industry. This section will aim to cover some of these research findings.

**3) Data Visualizations & Statistical Figures** - Research backed by data not only increases its credibility but also helps paint an accurate picture of the situation at hand. This section will contain graphical representations of data on various relevant topics.

The second issue of FinDev explores the growing phenomenon of digitization of financial services in Pakistan.

A diligent effort has been made to ensure that the content extracted from external sources has been cited and given due credit. In some cases, excerpts from the original articles have been extracted. To access the original articles, please click on the link provided at the end of each article. In case of any errors or omissions, we would like to apologize and would be eager to rectify the changes at the earliest. For feedback, comments or questions feel free to write to us at caf@gallup.com.pk.

Warm Regards,
The Gallup Pakistan Financial Inclusion Team
Led by Bilal I Gilani (Executive Director, Gallup Pakistan)

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# INTRODUCTION

According to a Gallup International study, nearly 6 in 10 banking customers (56%) prefer a digital relationship rather than a personal relationship with their bank. Previously ATMs were providing users this digital experience by catering to the banking needs of walking customers . However, the financial sector has realized the increasingly critical role of mobile devices in daily life. It is now fully embracing the digital evolution and is taking advantage of this resource by introducing new features such as the mobile wallet.

In Pakistan, keeping up with the SBP's financial inclusion policy framework, the financial industry is increasingly trying to reap the benefits of innovative technologies. Here, the idea of digitization of financial services extends to re-modeling the customer experience for maintaining a competitive edge over rival companies. Moreover, the broader goal is to expand the access to financial services, particularly in underserved areas.

The focus of this Cyberletter issue will be on the digitization of financial services. It aims to keep its readers updated of the recent developments and news happening in this emerging domain.


# NEWS ROUNDUP

This section covers the latest happenings from the financial services industry in Pakistan.

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# FINCA GEARS UP FOR DIGITAL DISBURSEMENT SOLUTIONS*

FINCA Microfinance Bank is gearing up to introduce digital disbursement solutions in rural and semi-rural areas in a bid to reduce cost of delivery and increase digital literacy.

The bank will use gadgets to get all necessarily details of the client via biometric verifications, thereby reducing the loan-processing time to within 48 hours. Apart from gadgets, the bank's newly launched mobile wallet, SimSim appears to be the management's hope to increase foothold in rural localities.

"I believe that the introduction of digital financial services in Pakistan can help us reach the untapped market, which is huge," said FINCA Impact Finance Global President and CEO Andree Simon, while talking with a group of journalists.

*“With digital finance, the delivery cost can reduce significantly as we have already done in other countries and reduce direct expenses up to 90%.”*

*“Financial inclusion in Pakistan is slow, in fact it is dependent on physical verifications on ground for a very long time,” she said, adding, “This increases the time of verification, as the officer has to meet the clientele physically, which turns it into an expensive delivery model.”*

*Talking about mobile wallet, she said that with this product, we have the ability to reach villages without physical presence; this will help in educating the public how to better use the mobile phone for financial inclusions.*

"Access to technology in Pakistan is uneven and in reality people in rural areas are not that literate. Using traditional mobile phone is time consuming and as the cost of smart phones will came down, people have more choices and we have more room to educate people," said Simon.

*FINCA started its operations in Pakistan in May 2013. It has successfully managed to post a year-on-year growth of 63% in 2015 and 86% in 2016 with a profit-after-tax of Rs631 million. Since 2013, it disbursed around 430,000 loans with a total disbursement of around Rs37 billion till date.*

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"We are in active discussions to introduce new and diversified product lines and we are also looking to explore agriculture loans since this sector offers a huge opportunity."

Pakistan is a very unique country, its business environment is very strong, it has a talented workforce and its population density is high, which again is an opportunity.

"Financial inclusion, however, what we dream of is not at that level and majority of the people don't have a bank account, which is an issue."

She expressed hope to bridge this gap through digital financial inclusion in coming years.

*Source: https://tribune.com.pk/story/1469810/finca-gears-digital-disbursement-solutions/
(Click here to access the article)

# PSO TEAMS WITH TELENOR TO OFFER BRANCHLESS BANKING*

Pakistan's largest oil company Pakistan State Oil Company (PSO) has announced a collaborative effort with Telenor Pakistan to provide branchless banking services to its Pakistan customers across 3,500 of its country-wide PSO stations. Each station will now provide Telenor EasyPaisa services.

The agreement was signed between GM NBD PSO, Babar H Chaudhary and Director Sales & Distribution Telenor Pakistan, Mohammad Qasim Awanat at PSO Headquarters in Karachi. Various other senior officials from both companies were also present at the event.

The purpose of the collaboration is to create ease of access and convenience for customers who are looking to avail banking services such as peer-to-peer money transfer through CNIC, utility bill payments, mobile phone payments etc., but do not necessarily have an account with a bank. With the deal in place, customers will be able to avail these services and more for at any PSO station.

The number of branchless banking accounts increased by 73 percent to 23.69 million in 12 months through March, the State Bank of Pakistan (SBP) reported recently.

*Source: http://fp.brecorder.com/2017/06/20170620191085/
(Click here to access the article)

# MASTERCARD'S PLAN TO BRING REFUGEES INTO THE DIGITAL FOLD*

With 65 million people reportedly displaced as a result of the escalating refugee crisis, humanitarian aid is needed now more than ever. Today, refugees are experiencing longer stays in refugee camps, representing a growing need for solutions – especially in the age of digital technology. But for global financial payments company, Mastercard, it's been the intersection of global need and digital technology that has paved the way for innovation in social impact.

According to Tara Nathan, Mastercard's Executive Vice President of Public-Private Partnerships, the company has been partnering with organizations around the globe to leverage technology that will create public financial and retail infrastructure in communities that need is most.

*The goal? To empower refugees and the local economies supporting them.*

*Through creating an offline payment platform and offering prepaid cards, digital financial identification and point-of-sale systems for local merchants, "We've essentially created a digital version of the paper voucher," Nathan shares.*

## From Commercial Competency to Global Innovation

Through products such as the Mastercard Aid Network, Mastercard is advancing social innovation through digital solutions and financial technology to enable a more efficient method of mobilizing refugee camps and creating opportunity, dignity and empowerment.

Before the network's creation, Nathan shares Mastercard's commitment to social good had been primarily philanthropic. "We would give grants, send a check, and that's how we engaged. But we began to hear more ideas about creating mobile apps or payment technologies – and it peaked our interest," shares Nathan. "It became obvious that we could help design the right solution for the context and desired outcome."


*Source: https://www.forbes.com/sites/torilutley/2017/08/30/how-mastercard-is-bringing-digital-innovation-to-refugees-around-the-globe/#218e07723ef7 (Click here to access the article)

# RIDING THE DIGITAL WAVE*

Aurora interviewed Nadeem Hussain, who is founder and coach, Planet N on the transforming power of Digital Pakistan.

**AURORA:** You have transitioned from being a professional banker into a digital start-up entrepreneur. How did the journey evolve?

**NADEEM HUSSAIN:** I spent 27 years at Citigroup as a consumer and corporate banker, working in eight countries. After 27 years, I decided to return to Pakistan and create something. Although I did work in Pakistan as head of consumer banking at Citibank and launched many products, I had not created anything which changed the industry, nor had I created a Pakistani company which, from a global lens, could be viewed as being among the top three in the world in a particular category. I wanted to do something that would create a legacy; that was the ambition. When I came back, my core expertise was finance and the only banking licenses available from the State Bank of Pakistan (SBP) at the time were for Islamic or microfinance banks.

I looked at both, as theoretically I could do both, although practically I had done neither. The microfinance license was for $10 million and the Islamic bank one was for $100 million; there was no way I could raise $100 million, but $10 million I could manage. When I researched microfinance, I came to the conclusion that although there was a huge market there, no institution was looking at it from a Double Bottom Line (DBL) perspective – social impact and financial sustainability. I thought that if I got this right, I could create something that would stand out regionally, if not globally. Last year, when I exited from microfinance after 11 years, Tameer Bank was the most profitable microfinance bank in Pakistan. It was among the top 25 in the world and Easypaisa, the product I developed in collaboration with Telenor, was the only product made in Pakistan by Pakistanis; it was ranked globally at number two and it changed the industry. People, who were using the hawala system or the post office for their domestic remittances, switched to Easypaisa because it was the most convenient form of local transfer. Easypaisa was able to move six percent of Pakistan's GDP in a year. It was huge. As a consequence, other entities followed and there are now five or six companies providing the same service.

To read the full interview click here.

*Source: http://aurora.dawn.com/news/1142150/riding-the-digital-wave
(Click here to access the interview)

# THE RESEARCH


Constant work is being undertaken by experts and research organizations to enhance the understanding and find solutions to challenges encountered within the financial services industry. This section covers some of these research findings.

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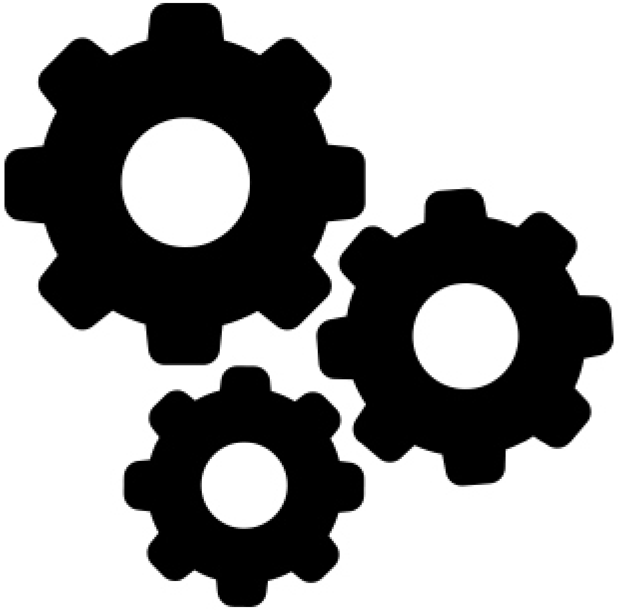
# IPA- EASYPAISA REFERRAL STUDY*

Karandaaz Pakistan has formed a partnership with EasyPaisa and Innovations for Poverty Action (IPA) to better understand how users can be encouraged to open digital transaction accounts (DTAs) and become active mobile money users. The study focuses on optimizing incentives and referral programs to create active and sustained mobile money users. Using a randomized controlled trial (RCT), the study aims to unpack how referrals work in a massive network experiment. The study will examine how uptake and active usage of mobile wallets can be increased by leveraging referral campaigns and social networks. The study will also provide insights into how individuals learn and share information through their social networks, and what this means for questions on uptake and persistent usage of mobile money.

In particular, the study is interested in finding answers to the following questions:

(1) How do people select the friends and family that they refer? Using machine learning methods, a person's decision about whom to refer can be modeled. One of the keys goals of this study is to develop accurate machine learning algorithms which can be used to predict who is likely to sign up for EasyPaisa, become an active user and which friend (target) they are most likely to refer to EasyPaisa.



(2) How does a person convince a friend or family member to adopt and use EasyPaisa? Friends provide a trusted source of information to friends, helping to cut through the noise of all the marketing campaigns run by mobile money operators (MNOs). Friends also can convince friends to take an action.

(3) What determines whether a new user will continue to use EasyPaisa in the long run? New users do not necessarily convert into active users. Through this study, we can understand the role a network plays and the key factors determining long-term, active mobile money users.

*Study Design: Existing users of the EasyPaisa are incentivized to refer their friends or family to also open a mobile account. Both the referrer, "seed" and referee "target' will be eligible to earn a reward in the form of free Easypaisa balance. Incentives will encourage not only opening of a new mobile account but also active use of the account.*

*Source: http://www.karandaaz.com.pk/wp-content/uploads/2017/07/June-Newsletter-2017.pdf
(Click here to access the newsletter)

# DATA VISUALIZATION & STATISTICAL FIGURES

Research backed by concrete data not only increases its credibility but also helps paint an accurate picture of a particular situation. This section contains graphical representations on various topics.

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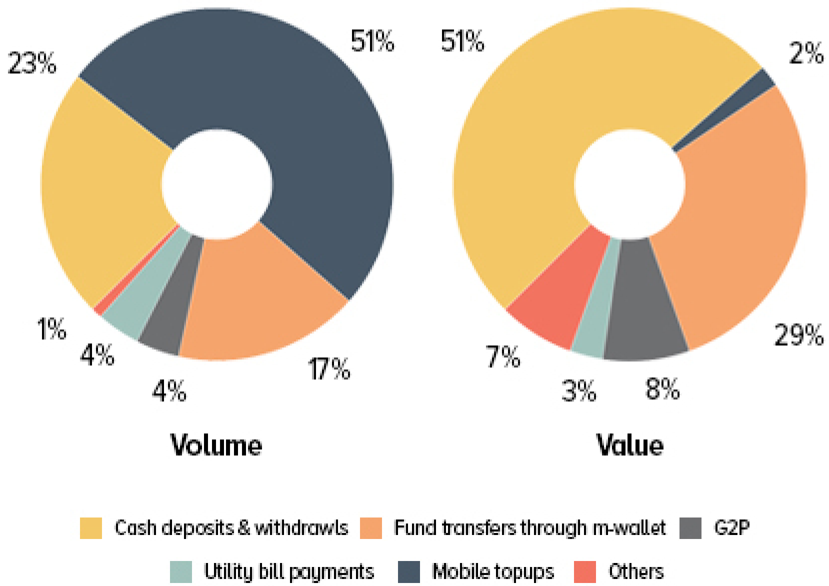
# SHARP RISE IN CUSTOMER-ORIENTED TRANSACTIONS MAINLY DUE TO M-WALLETS*

The figure illustrates the breakup of m-wallet transactions, 51% of transactions are contributed by Mobile top ups and 23% by cash deposits & withdrawals through m-wallets. While the value of m-wallet transactions are dominated by cash deposits & withdrawals through m-wallets and fund transfer through m-wallets.

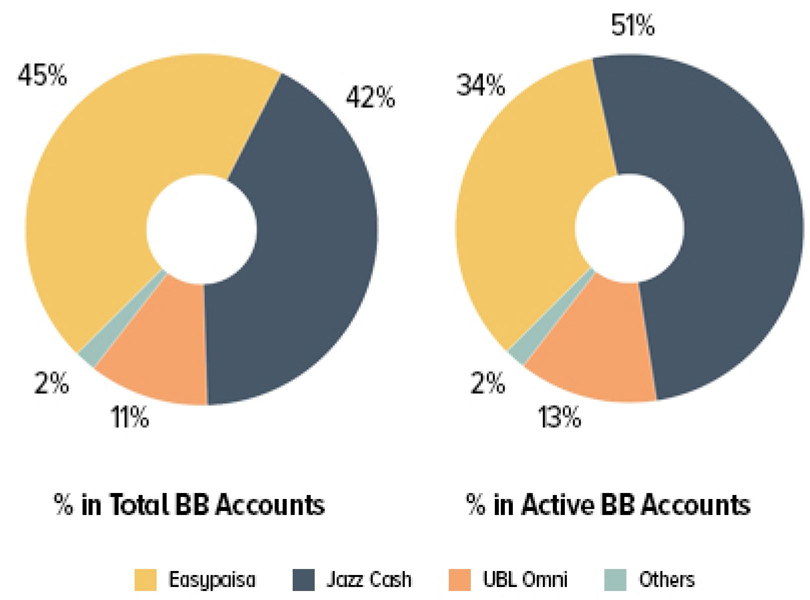



*Source: http://www.sbp.org.pk/publications/acd/2017/BranchlessBanking-Jan-Mar-2017.pdf
(Click here to access the report)

# PLAYER-WISE COMPARISON - TOTAL VS ACTIVE BB ACCOUNTS *

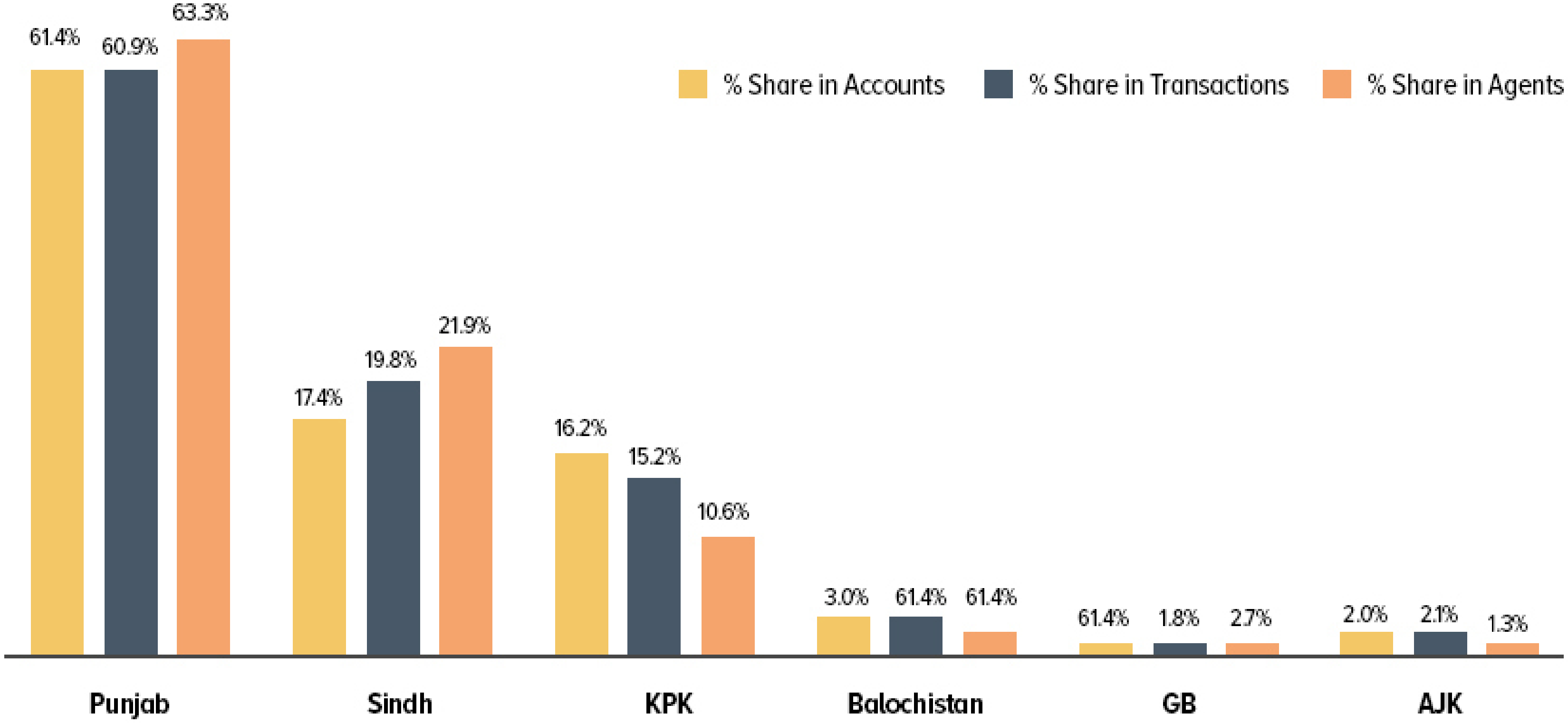
The major three players are competing with each other to capture the BB market share. The player wise ranking in accounts has shown that more than 50% share of active accounts captured by Jazzcash during the quarter Jan-Mar 17. Similarly, a consistent increase in BB accounts has also been observed in Jazzcash portfolio. The active accounts to total accounts ratio of Jazzcash reached to 57% and Telenor to 36% during the quarter under review.

Easypaisa remained the top contributor with 10.7 million accounts, followed by Jazzcash and UBL Omni with 10.1 million and 2.5 million accounts respectively. There was no change in the status of remaining six players which appear to be putting less effort and concentration in enhancing their BB portfolio.




*Source: http://www.sbp.org.pk/publications/acd/2017/BranchlessBanking-Jan-Mar-2017.pdf
(Click here to access the report)

# GEOGRAPHIC CONCENTRATION OF BRANCHLESS BANKING NEEDS TO BE DIVERSIFIED*




The data shows that the geographic spread remained relatively skewed towards Punjab due to its population size. BB players need to extend their services more to Baluchistan, GB and AJK. BB industry needs to come up with innovative approach to attract customers from these underserved areas. By serving underserved areas BB players will not only expand their own business but also contribute towards national agenda of Financial Inclusion. BB industry should also take full advantage of new business opportunities generating from Baluchistan due to CPEC activities.

*Source: http://www.sbp.org.pk/publications/acd/2017/BranchlessBanking-Jan-Mar-2017.pdf
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