FinDev Cyberletter

August Edition

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 across the globe, 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 seventh 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) Initiatives – Constant work is being undertaken by experts, governments 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 initiatives, both locally and internationally.

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.

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

A Specialist’s View On Financial Inclusion*

BY BROWN N. UGBAJA

The newest numbers just released by Global Findex tell us that globally the share of adults owning an account is now 69 percent, an increase of 18 percentage points – representing 1.2 billion people – since 2011. This impressive progress has been driven by government policies as well as a new generation of retail agents and the internet. While progress in the past six years demonstrate a clear upward trajectory, 1.7 billion people are still excluded and women, those living in poverty and rural populations are much more likely to be financially excluded. Virtually all of these unbanked adults live in the developing world and nearly half live in just seven developing economies: Bangladesh, China, India, Mexico, Nigeria and Pakistan. We have a growing evidence base that financial services provide positive benefits for the poor. We know for example that proximity to agents helps people, especially women, by allowing them to diversify economic activities and draw on geographically dispersed social networks in times of need.

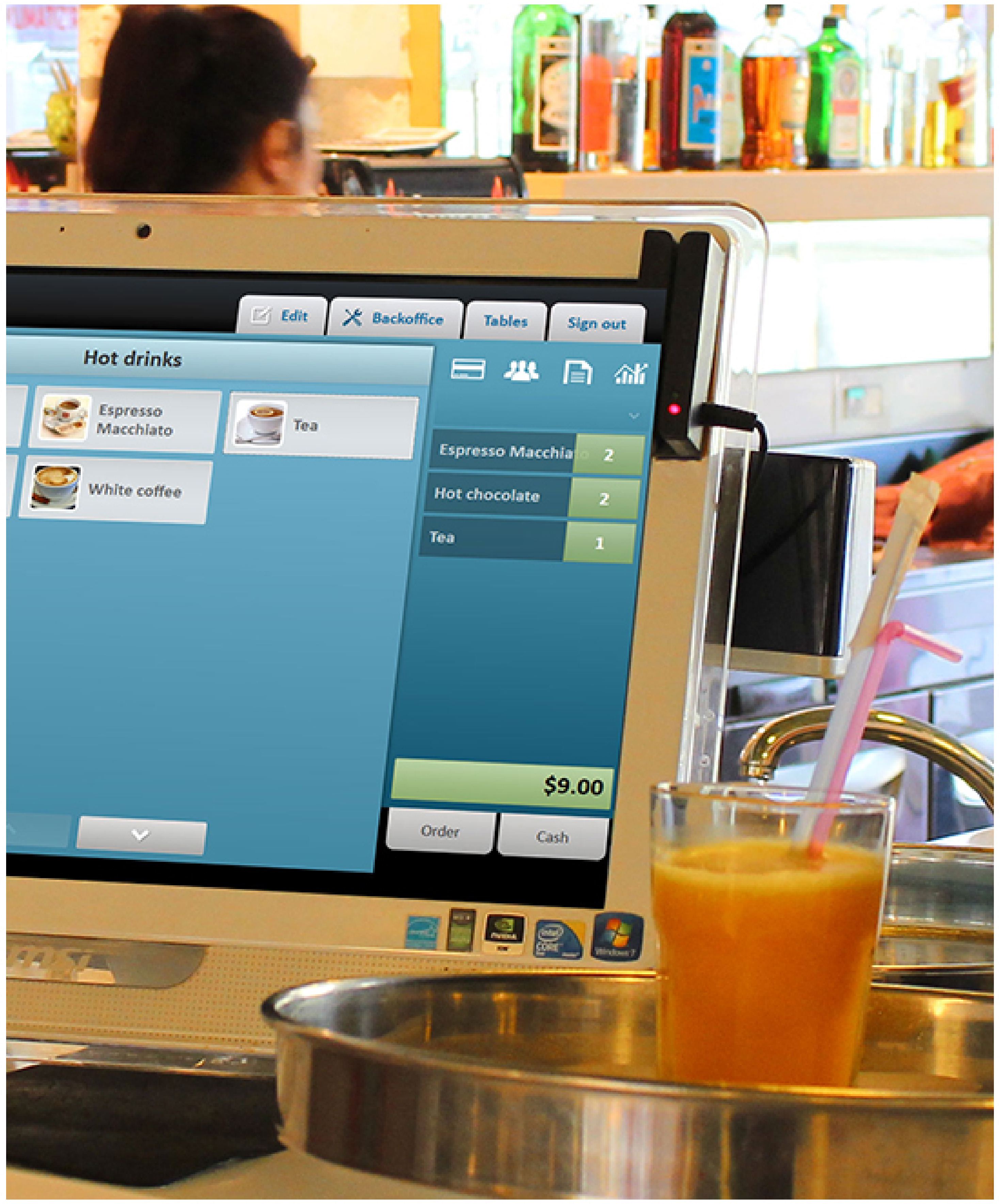
*Source: Published on issuu, dated July 3, 2018
(Click here to access the original article)

Security Challenges In The Changing Payments Landscape*

BY GBOLABO AWELEWA

The advent of marketplace innovation in payment methods, technology and the influx of participants raises important policy issues for the regulators. While on one hand, it is necessary to create an enabling environment for innovations in payment which will improve customer convenience, transaction efficiency and overall benefits to the economy, it is equally imperative that adequate protections be incorporated into the regulatory framework so that customer confidence in the payment system is maintained and even improved. Achieving this balance in policy and regulatory framework is paramount as it has enormous implications for the economy. Three core issues to be addressed by regulators and policy makers have been identified by American Bankers Association (ABA).

*Source: Published on issuu, dated July 3, 2018
(Click here to access the original article)



A series of penetration tests found that every bank is guilty of web application vulnerabilities and insufficient network security measures. According to a recent report from Positive Technologies, Bank Attacks 2018, 100 percent of banks suffered from these vulnerabilities and inadequacies.

It showed banks have built up formidable barriers against external attacks, but fall short in defending against internal attackers. Whether by puncturing the perimeter with social engineering , or the help of insiders , attackers able to reach a bank's internal network would need only four steps to obtain access to key banking systems.

*Source: Published on issuu, dated July 3, 2018
(Click here to access the original article)

All Banks Are Prone To Web App Bugs*

As Cryptocurrencies Rise, Is There A Future For Banking?*

BY ANTONIO FATAS AND BEATRICE WEDER DI MAURO

Do you value bitcoin in Dollars or Dollars in bitcoin? Few serious economists imagine that the new cryptocurrencies, for all the hype, will make national currencies redundant. By and large they are right, because conventional money actually does a pretty good job. The U.S. dollar and other reserve currencies have historically performed as a medium of exchange and as a store of value – the two principal functions of a currency. Bitcoin and its derivatives perform poorly on both accounts and will not disrupt money as we know it.

But that doesn't mean that new technologies aren't going to usher in a lot of disruption to the financial system. Traditional economists (and, yes, that label could well describe both of us) often ignore a crucial separation between money (the "what") and the payment technology (the "how"). This confusion originates in the fact that for older forms of money- gold or bank notes – there is no distinction between the "what" and the "how"; you simply pay by handing dollar bills or gold coins to the seller.

*Source: Published on issuu, dated July 3, 2018
(Click here to access the original article)

On Digital Inclusion*

While financial inclusion is all the rage, digital inclusion has received relatively less focus in Pakistan. In 'E-commerce: two exclusions,' published July 11, 2018, BR Research recently highlighted how digital exclusion is hampering Pakistan's digital economy. Now the SBP, in its latest quarterly report on the state of the economy, has picked up 'Internet Inclusiveness', lending the theme a powerful voice.

Using the EIU's Inclusive Internet Index (2018) – which places Pakistan at 68th rank among 86 economies, lagging Bangladesh, India and Sri Lanka in South Asia – the SBP is arguing for more focus on demand-side of things.

No matter how many gains are made in improving broadband coverage, they will not, SBP argues, be sufficient alone in gaining the most out of broadband connectivity.

*Source: Published on Business Recorder, dated July 17, 2018
(Click here to access the original article)

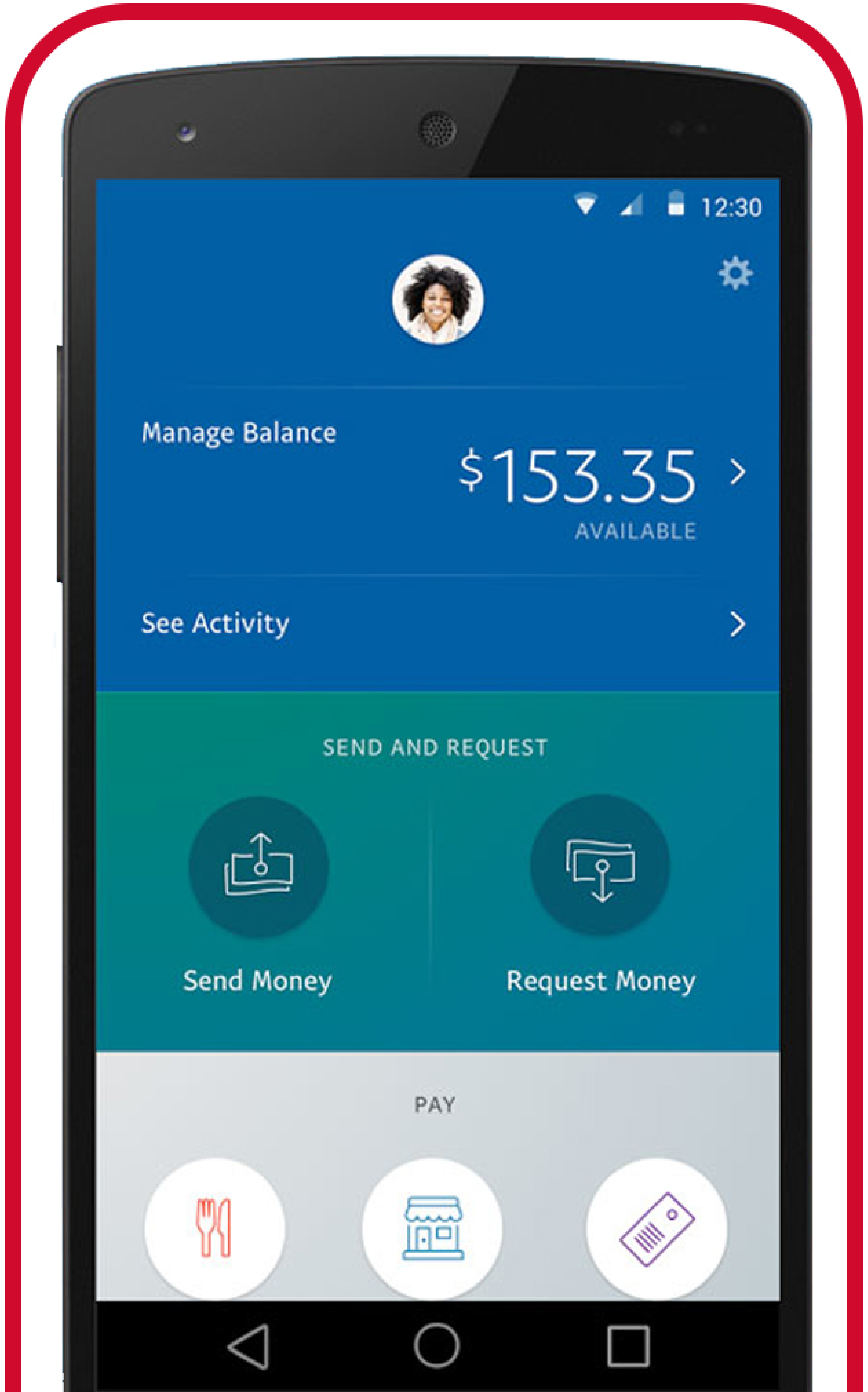
The Initiatives

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.

Paypal Moves Toward Traditional Banking*

Online payments company PayPal is exploring ways to add mainstream banking to services. It has been quietly reaching out to group of customers in recent months with an offer to add basic banking features to digital wallet, according to Wall Street Journal. Those services include Federal Deposit Insurance Corp. insurance for their balances, a debit card that can be used to withdraw cash at ATMs and the ability to direct-deposit their pay cheques. So far, PayPal has only been offering the features to a small group of customers who don't have traditional bank accounts. According to Bill Ready, PayPal's COO, the company isn't looking to replace traditional banks anytime soon with the new service. Instead, it wants to offer banking options to customers that typically haven't been able to take advantage of them. According to Ready, if you already have a bank account connect to your PayPal account, "this isn't an account for you".

*Source: Published on issuu, dated July 3, 2018
(Click here to access the original article)



Automated Banking*

CHINA OPENS FIRST BANK BRANCH RUN BY ADORABLE ROBOTS

Talking to human financial adviser at your bank has become a thing of past. A state-owned bank in China has launched the world's first person-less branch equipped with facial scanning software, a virtual reality room, a hologram machine, talking robots and touchscreens. Beijing-based China Construction Bank opened the branch in central Shanghai's Huangpu district in April to make banking more convenient, personalized, and efficient. It also reflects growing competition from cashless payment systems that are giving banks a run for their money.

Customers are greeted by robots who answer inquiries via voice recognition and are able to do most things a human assistance could, including opening account, transferring money and making investments.

Visitors can swipe their national identification cards to enter the bank or scan their faces using the bank's facial recognition device. Machines inside allow customers to buy gold, change currency, or scout real estate investments using virtual reality goggles.

The bank is not totally unstaffed. Guards still stand sentry, and there is a room equipped with teleconference equipment where VIP clients can request help from human employees elsewhere.

*Source: Published on issuu, dated July 3, 2018
(Click here to access the original article)

Unhackable & Unloseable*

Design studio Layer has collaborated with fintech startup Trove to launch a digital wallet and app system that allows you to store your cryptocurrency without fear of loss or theft. Called Trove, the system keeps cryptocurrency offline, making it less susceptible to hackers, and also incorporates smart security systems, making it much harder to lose if you forget your password.

*Source: Published on issuu, dated July 3, 2018
(Click here to access the original article)

Crytocurrency*

Children aged six and over can now own cryptocurrency using an app called Pigzbe, which functions as a digital piggy bank. Created by entrepreneur Filippo Yacob, the app teaches children about cryptocurrency and finance while encouraging them to save. It operates using a blockchain-enabled currency called Wollo, the first cryptocurrency targeted specifically towards children. Pigzbe uses an app to transfer money from parent to child. An immersive game version of app is available for children, while adults use a simpler version of app.

*Source: Published on issuu, dated July 3, 2018
(Click here to access the original article)

Digital payments specialist, NETS, has begun testing finger vein payments at Copenhagen Business School (CBS) in Denmark. Students and visitors there, are foregoing cash, cards and smartphones and buying lunch using just their finger. It is a new, faster and safer way of making payments that works by scanning the structure of veins in customers' fingers.

Working with CBS, Smart payments and Fingopay, Nets installed finger scanners at the check outs in the school cafeteria. Anyone with a Dankort, the Danish domestic card scheme, can enroll in the system and link the unique pattern of veins in their finger to their account.

Finger vein payment is similar to the biometric capabilities on smartphones, many of which can now be unlocked, and particular applications accessed, with a fingerprint. It is even more secure than fingerprint biometrics because finger vein patterns are almost impossible to replicate and blood circulation must be detected for the payment to be authenticated. The payment process is very much like other contactless payments but the increased security creates one key difference – even high-value transactions do not require the extra step of PIN entry.

*Source: Published on issuu, dated July 3, 2018
(Click here to access the original article)

Finger Vein Payment Piloted In Denmark*

Visa, Mastercard Push For Single Payment*

In April, Visa and MasterCard, the world's largest card networks, told an industry conference they were working together on a buy button that would eventually replace Visa Checkout and Mastercard Masterpass, their current digital payment initiatives. The aim, according to the payment networks, is to simplify the process.

It would also make cards less vulnerable to fraud through the use of a unique token for online transactions, which decreases the chance of cards being intercepted and reused. The strategy is seen as a sign of how difficult the payments realm has become and shows the companies are looking for new ways to compete for online customers' attention against PayPal and other payment firms.

PayPal remains the giant in digital wallet payments. About 64% of customers used Paypal to make online or mobile payments at least once in the past year, compared to 22% for Visa Checkout and 8% for Masterpass, according to a 2018 survey from Bernstein Research.

The button is still being developed. To implement the change, several ways will need to take place, including getting merchants to agree to replace the networks' current payment buttons on their websites' checkout pages. But some large retailers are not convinced.

*Source: Published on issuu, dated July 3, 2018
(Click here to access the original article)

ATM Recalibration For New ₹100 Note May Take A Year*

BY MANOJIT SAHA

Automated teller machine (ATM) recalibration for dispensing the new ₹100 note could take 12 months, or more if not planned properly, ATM manufacturers said. The central bank had said a new series of the ₹100 note would be put in circulation soon. The new notes, which will be smaller than the existing ones, may come into use in August. As a result, ATMs will have to be once again recalibrated as they were when ₹2,000, ₹200 or the new series of ₹500 were introduced.

*Source: Published on The Hindu, dated July 20, 2018
(Click here to access the original article)

Karandaaz Pakistan and National Bank of Pakistan (NBP) have partnered to launch a nationwide initiative for the promotion of digital financial inclusion by implementing a robust Application Programming Interface (API) on Apigee. Apigee is a leading API platform owned by Google. The implementation of Apigee is provided by Abacus Consulting that is the sole provider of Apigee services in Pakistan.

This development will help the largest government owned bank to digitize its transactions end to end primarily Government to Person (G2P) and Person to Government (P2G) transactions. The platform will also enable NBP to collaborate with its various existing and potential partners such as government entities, micro-financial services (MFS) players, telecom companies, financial networks, and FinTechs.

*Source: Published on Propakistani
(Click here to access the original article)

Karandaaz Supporting Digitization Of National Bank Of Pakistan*

BY MANOJIT SAHA

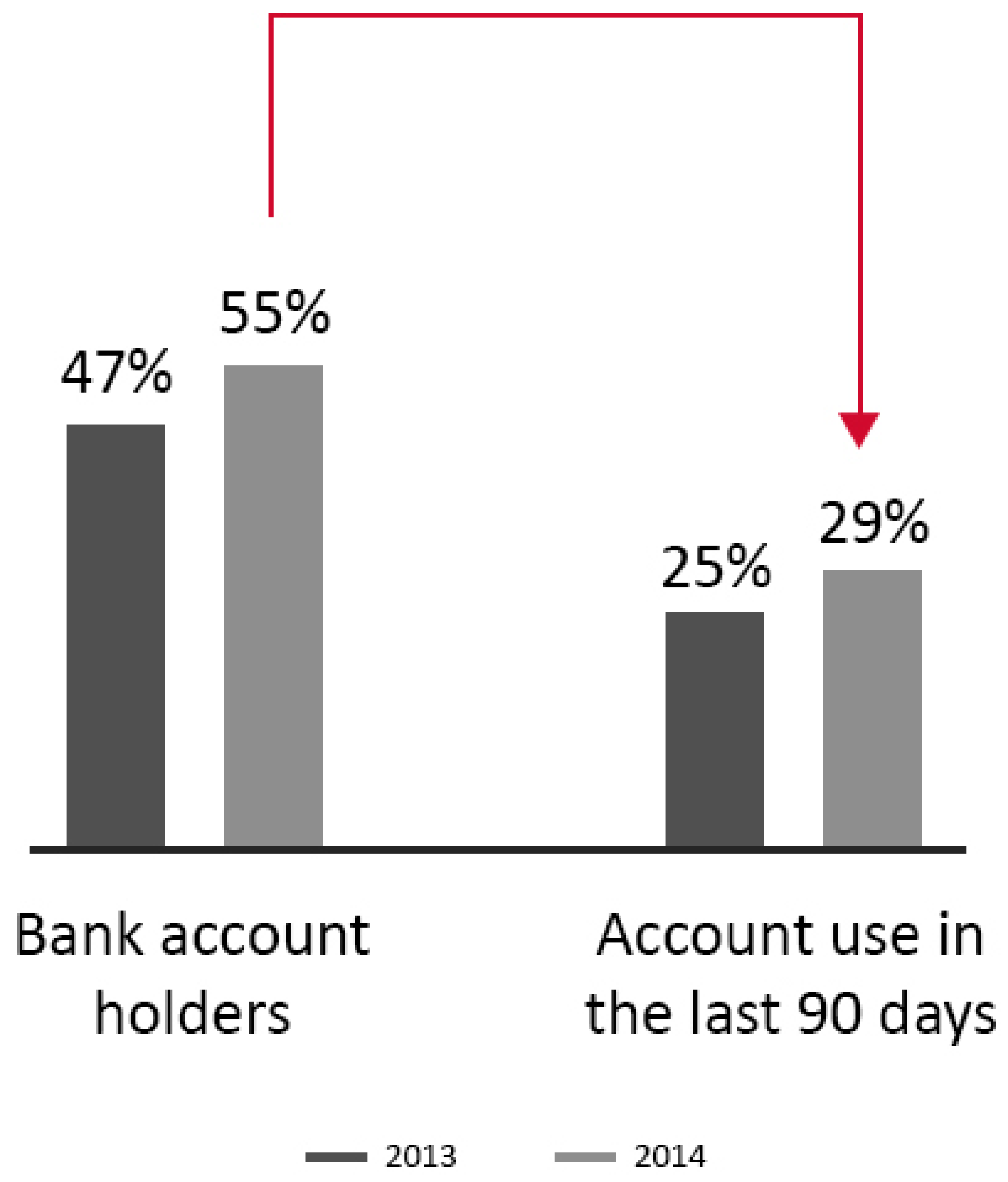
Data Visualization & Statistical Figures

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.

Dormant Accounts Don't Mean Dormant Financial Lives*

Bank account holders and active use

(Shown: Percentage of Indian adults who fall into each category, 2013, N=45,024; 2014, N=45,087)



*Source: Published on Finclusion
(Click here to access the original article)

Dormant accounts don't mean dormant financial lives

Consumers conduct a variety of financial activities, but cash is the dominant transaction method

2014 (INDIA)	% of all Indian consumers (N=45,087)	% of consumers with bank accounts (N=24,657)	% of consumers with dormant bank accounts (N=12,185)
Sent/received money	14%	14%	14%
Received wages or salary	32%	36%	31%
Paid a bill (utility, medical, school)	57%	64%	59%
Bought groceries	89%	90%	89%
Conducted at least one of the above activities	94%	95%	94%
More than one activity	68%	73%	69%
More than two activities	27%	33%	28%
Save or store money	82%	93%	89%
Take a loan	23%	26%	29%

Cash is king—15% say they cannot make daily/regular purchases other than in cash; 24% say cash is easier

Cross- Country Comparison: Financial Services In Developing Markets*

Market Access and Availability	Bangladesh	India	Indonesia	Kenya	Nigeria	Pakistan	Tanzania	Uganda
DFS Market Stage	Expansion	Inception	Inception	Consolidation	Expansion	Start-up	Early Consolidation	Late Consolidation
Market Characterization	Ahead of other FII Asian countries in mobile money access and awareness Still has high unregistered mobile money usage	Government successfully promoted bank account ownership through the PMJDY program and increased financial inclusion for the poor	Early period of regulatory certainty and new market entrants, but very low awareness/understanding of digital services	New digital financial services (DFS) entrants give the dominant player competition	New regulations geared towards DFS improvement	Mobile money use remains largely unregistered, but SIM registration efforts could encourage greater mobile wallet registration	Vibrant, competitive market, encouraging consumer-centric innovations	New DFS regulations in place
Number of mobile money providers	2	14	6	4	12	8	4	4
Commercial bank branches per 100,000 adults (World Bank, 2014)	8.2	12.2	10.4	5.6	6	9.3	2.6	2.9

*Source: Published on Finclusion
(Click here to access the original article)

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