FINDEV CYBERLETTER

March/April 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 fifth 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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NEWS ROUNDUP

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

Three Players to Enter Pakistan's Online Payments Space*

At least three fintechs are set to capitalise on the rapidly growing financial sector of Pakistan, targeting an entry in the country's market, according to the central bank.

FonePay, Monet and TPL Rupya are entering Pakistan's financial market, said a quarterly report of the State Bank of Pakistan (SBP), hinting at a rise in the business-to-consumer e-Commerce (e-B2C). Growing incomes, coupled with advancement in communication technology and expansion of internet access and branchless banking, has been propelling the sector forward, said the SBP report.

The new financial technology will enable people to make online transactions to anyone available on any mobile wallet account, which is not yet possible.

Fintech will add about 4 million jobs, 93 million bank accounts, $36 billion annually to the gross national product (GNP), and $7 billion to Pakistan government's net revenue by 2025, according to McKinsey & Company, a worldwide management consulting firm.

This is because globally, traditional bank accounts rise proportionately to GNP, but mobile accounts can rise exponentially. The central bank's target of 50 million accounts by 2020 should be on track, as the McKinsey forecast, he remarked. Transactions worth Rs20.7 billion were carried out by consumers on international e-commerce websites, said the SBP.

*Source: Published on The Express Tribune, dated January 23, 2018

“Bank accounts seem to be on track as there are 7 million today. This includes 1.8 million traditional accounts, accumulated over 50 years, and 5.2 million mobile/branchless accounts accumulated in around one-tenth of that time,”

said National Technology Fund Ignite CEO Yusuf Hussain.

Pakistan needs to control population growth to become middle-income country*

BHURBAN: Pakistan will have to reduce its current population growth rate to half in the next 30 years to achieve the status of a high middle-income country, as the current pace of increase in population is a barrier to becoming a prosperous nation, said World Bank Country Director Patchamuthu Illango.

"Pakistan will remain a low-income country even after 30 years when it turns 100, if it does not control the exploding population bomb," said Illango while speaking at a seminar.

For the next 30 years, there are two possible pathways for Pakistan's economy and two different futures, he added. The recent population census revealed a number of 207.7 million. If we project that to 2047, then Pakistan's population will be 400 million people, he added. If we project the economic growth rate of the last 70 years to next 30 years, then the GDP per capita of Pakistan could be the same as today, said Illango. Pakistan's per capita income is $1,629, which clubs it among low-income nations.

Illango said that on the other hand, if Pakistan is able to contain its population growth rate to around 1% or below and the economy grows at a higher rate than 8%, Pakistan's GDP per capita will be around $10,000 in 2047.

At slightly over $12,000 per capita income, a country is treated as a high income nation.

The World Bank official said that the next 10 years are critical to lay the foundation for a more prosperous economy when Pakistan turns 100 years old. This miracle can be achieved in a generation, he added.

*Source: published on The Express Tribune, dated February 22, 2018

SBP, Karandaaz to work for regulatory framework*

KARACHI: State Bank of Pakistan and Karandaaz signed an agreement in Islamabad today under which Karandaaz will support State Bank's efforts to create an enabling environment based on international best practices for digital banks. Karandaaz will provide technical assistance to the State Bank of Pakistan for formulating legal and regulatory framework including licensing criteria for digital banks in Pakistan.

The agreement was signed by Syed Irfan Ali, Executive Director, State Bank of Pakistan and CEO Karandaaz, Ali Sarfraz. Riaz Riazuddin, Deputy Governor State Bank of Pakistan, dignitaries from SAARC countries currently in Islamabad to attend the SAARC Finance Forum 2018, and other senior officials witnessed the signing ceremony.

Speaking at the occasion, Syed Irfan Ali, Executive Director State Bank said, *"In Pakistan, more than 90% of the population has access to most affordable ICT services in the world. The consumers' use of electronic payments in Pakistan has grown significantly in recent years. This trend will accelerate in coming years due to the vision of State Bank of Pakistan on provision of digital financial services, especially to financially excluded segment of population."*

*Source: published on Daily Times, dated March 20, 2018

Ant Financial inks agreement with Telenor to boost financial services in Pakistan*

TELENOR GROUP HAS REACHED A STRATEGIC PARTNERSHIP AGREEMENT WITH ANT FINANCIAL SERVICES GROUP (ANT FINANCIAL) IN PAKISTAN

As per agreement, Ant Financial will invest US $184.5m for a 45% stake in Telenor Microfinance Bank (TMB), a subsidiary of Telenor Group, to further develop mobile payment and digital financial services in Pakistan.

The MoU was signed at the Prime Minister Secretariat in the presence of PM Shahid Khaqan Abbasi, government officials and management of Telenor and Ant Financial.

The strategic partnership between Telenor Group and Ant Financial combines TMB's knowledge and local market presence with more than 20 million customers, and Ant's technology in Alipay, the world's largest digital payment platform, and other financial services, to bring mobile payment and inclusive financial services to individuals as well as small and micro businesses in Pakistan.

TMB offers Easypaisa, Pakistan's first mobile financial services platform launched in 2009, which has since developed into the largest branchless banking service in Pakistan in terms of agent network, active accounts and transaction value, according to the State Bank of Pakistan.

Today, more than 100 million Pakistanis are unbanked, accounting for 5% of the world's unbanked population, according to the World Bank. This is expected to change drastically in the years to come, especially with rising smartphone penetration.

To prepare for that, TMB need to build their digital competence and execution capabilities to serve the need of the users. Completion of the transaction is subject to customary regulatory approvals.

*Source: published on The News, dated March 14, 2018

Women and Financial Inclusion: The Case of Pakistan*

In achieving overall stability of the financial sector, authorities are increasingly aware of drafting and implementing policies which boost overall financial inclusion and financial consumer protection.

An enabling environment which facilitates competition, promotes innovation and the use of technology empowers financial consumers to make informed choices and enhances financial inclusion and consumer protection.

Progress on this front has been slow and uneven. A recent report 'Global Financial Inclusion and Consumer Protection Survey 2017', published by the World Bank, has said that in more than 65 economies of the world the majority of adults remain excluded from the formal financial system.

In Pakistan, the gender gap in financial inclusion in 2016 climbed back to 8% after falling to 5% in 2015. Among Pakistani women, largely urban, educated and wealthy females have registered bank accounts with formal institutions.

Women have very little agency in financial matters with the men in the family be it in the form of spouse, brothers or fathers taking it in their own hands.

Results from FII suggest that only 16% of women who derive their income from the formal economy have sole control over how they use their money. This is relative to a proportion of 44% of men in the country.

*Source: Published on The Express Tribune dated March 12, 2018

Pakistan top choice for Saudi Investment*

ISLAMABAD: Saudi Deputy Trade Minister Abdul Rahman Alharbi has acknowledged Pakistan as one of the top destinations for making investments.

During the first meeting of Pak-Saudi Joint Working Group on Trade and Investment in Riyadh on Monday, both the parties reaffirmed their commitment to strengthen their trade and investment ties in line with the understandings developed during its meeting held in Islamabad last month.

The Saudi side appreciated the attractiveness of Pakistan as a preferred destination of investment in view of its macroeconomic indicators, growth projects, strategic location and overall investment regime.

The kingdom also expressed its interest in investing in Pakistan in many sectors including petrochemicals, dairy, livestock, mining etc. It was agreed that Saudi Arabia will send a technical team to Pakistan to review the sector specific opportunities and projects.

The two countries agreed to activate Pak-Saudi Joint Business Council within two months. It was further agreed that Pakistan will hold Single Country Exhibition in Saudi Arabia in 2018. In order to give further impetus to the trade relations, it was agreed to mutually facilitate the trade by overcoming the issues like visa fees, registration of companies, shipment delays and mutual recognition of standards. Commerce Minister Younus Dagha appreciated the progress made on various important matters in today's meeting and assured support to Saudi investors looking to invest in various sectors.

The next meeting of the Joint Working Group will be held in Islamabad in April.

*Source: Published on Dawn, dated February 28, 2018

WhatsApp Testing Digital Payments in India*

WHATSAPP HAS NOW RELEASED A BETA VERSION OF ITS APP THAT ALLOWS PEER-TO-PEER DIGITAL PAYMENTS.

TechCrunch reported that the launch took place in India later confirmed by WhatsApp Beta's Twitter account.

Through this new feature, the user can make payments using the different banks listed in its options.

The user must verify their number via SMS and choose a bank. The option of making a payment is available on the main interface where the other media sharing options show up. India's huge market audience for the messaging app is probably why the beta version was launched there first.

Recently, WhatsApp revealed the Q4 earning announcing that the company reached a milestone of 1.5 billion active monthly users with 60 billion messages being sent daily. The Beta version is available for both IOS and Android.

*Source: Published on The Express Tribune dated February 10, 2018

The UK opened the door for Facebook and Google to start acting like banks*

Starting Saturday (Jan. 13), the UK's nine biggest banks, which service most of the population, will no longer have a lock on the state's financial transactions.

New rules that are part of a UK directive called Open Banking aim to make it easier to compare and switch UK banks. Financial institutions will have to share their customer data with other companies if customers give permission. That means third parties will also be able to make payments on behalf of customers, or manage their finances for them.

This opens the door for tech companies like Facebook and Google, which have been trying to break into banking without actually becoming banks. Both Facebook and Google have waded into payments in the UK with products like Pay by Messenger, which launched in November, and Google Wallet, where you can send payments via email.

With the new rules, Facebook could think about extending payments to WhatsApp as it has in other part of the world, allowing you to pay your roommate back for groceries within Facebook's chat app, for example. And Google Pay could someday be used as freely as it is in the US, where users pay for travel via apps such as Airbnb, or buy goods in physical stores.

Previously, companies like Facebook and Google had to negotiate deals directly with banks in the UK to get access to account or transaction data when given permissions, which limited the opportunities for these kinds of products. Startups with less negotiating power needed to ask for your username and password, then log into your bank's website and scrape it for information like your transaction history, Wired recently explained.

The new rules force the UK's big banks—Allied Irish Bank, Bank of Ireland, Barclays, Danske, HSBC, Lloyds, Nationwide, RBS, and Santander—to put APIs in place that standardize and secure the release of customer data, so that it's easier to share when customers allow it.

With the new directive, tech companies and startups could become real rivals to historic financial institutions.

*Source: Published on Quartz dated January 13, 2018.

Popular Line messaging app starts crypto trading spinoff*

Japan's biggest messaging app Line said Wednesday it was launching a financial services spinoff to allow users to exchange and trade virtual currencies.

Line said "its new business would provide a variety of financial services, including a place to exchange and transact virtual currencies, loans, and insurance."

The transactions will be made inside the messaging app, which already incorporates a mobile payment system. Line has a relatively small presence in the US and Europe, but is hugely popular in Japan and several other countries in Asia, where crypto currencies like bit coin are heavily traded. Line said it had already begun the process of registering its new virtual currency business with Japan's Financial Services Agency, which regulates crypto currency exchanges in the country. Its shares rose on the announcement, closing up 2.57 per cent.

The announcement follows a massive $530 million heist of crypto currency last week from Japanese virtual currency exchange Coincheck. The loss exceeds even the $480 million stolen in 2014 from another Japanese virtual currency exchange, MtGox. Japan's government has slapped Coincheck with an administrative order, and governments around the region and further afield have begun tightening regulations on virtual currency trade.

But crypto currencies have remained stubbornly attractive to investors, particularly in Japan where ultra-low interest rates have left few good options for returns on cash.

Line was launched in 2011 after Japan's quake-tsunami tragedy damaged telecoms infrastructure. It combines features from Facebook, Skype and WhatsApp with games and a mobile payment service.

*Source: Published on The Express Tribune, dated January 31, 2018

Ripple makes new connections to emerging markets*

Ripple has announced deals with two banks and three payment processors across India, Brazil and China, as the firm seeks to make good on a promise to transform payment flows into and out of emerging markets.

Itaú Unibanco, Brazil's largest private sector bank, IndusInd in India and Singaporean money transfer outfit InstaReM have announced plans to use Ripple's enterprise-ready ledger product xCurrent to provide real-time cross-border payments to other financial institutions around the world.

Two fast growing remittance providers, Beetech in Brazil and Zip Remit in Canada, have also come onboard, using Ripple's xVia API to open payment corridors for their customers around the world. Additionally, both will look to establish a connection for their customers into China via e-commerce network LianLian, which signed up to RippleNet last month.

According to the World Bank, global remittance payments are on track to grow by 3.4 percent or roughly $466 billion in 2018, with India and China having the highest incoming flows in 2017. Patrick Griffin, Ripple's head of business development, believes that providing faster cross-border transactions at a lower cost is especially crucial for customers in emerging markets.

"The payments problem is a global problem, but its negative impact disproportionally affects emerging markets," said Griffin. "Whether it's a teacher in the U.S. sending money home to his family in Brazil, or a small business owner in India trying to move money to open up a second store in another country, it's imperative that we connect the world's financial institutions into a payments system that works for their customers, not against them."

*Source: published at Finextra, dated February 21, 2018

Digital banking start-up Revolut breaks even as it prepares global expansion*

(Britain): British digital banking app Revolut has broken even for the first time, in a rare development for a niche sector that has struggled with profitability. Revolut said Monday that it had broken even for the first time in December, and that its monthly transaction volume surged to $1.5 billion, an increase of over 700 percent in the last 12 months. The start-up has signed up a total of 1.5 million users to its mobile app, up 50 percent from a figure it achieved in November. The firm declined to disclose any figures on revenues or losses, and said it made no sense to do so due to the competitive market it operates in.

Revolut's app lets customers open a current account in 60 seconds, and offers currency exchange at the interbank rate. Last year, the start-up introduced a feature that let users buy, hold and sell crypto currencies including bitcoin, ethereum and litecoin. It claims it is the first digital challenger bank to break even. Challenger banks are small banking groups, predominantly based in the U.K., set up with the aim of competing with larger lenders. Britain's Monzo and Germany's N26 are among such start-up banks that have faced difficulty in turning user growth into profit. However, new European rules that open up the data of big banks to third party firms could point to increased competitiveness for fintech start-ups and big tech firms.
Revolut applied for a European banking license in November, and looks to provide deposit and credit services under that regulatory framework.

The firm said it plans to expand to the U.S. and Canada within the next few months. It will subsequently launch in Singapore, Hong Kong, Australia, New Zealand, India and Brazil.

*Source: Published on CNBC, dated February 26, 2018

Canada wants to help India lead 'blockchain revolution'*

INDIA AND CANADA ARE LINKING UP TO PROMOTE THE TECHNOLOGY BEHIND BITCOIN AND OTHER CRYPTO CURRENCIES.

NEWDEHLI: Canadian government-backed researchers are joining forces with India's vast tech industry to explore the use of blockchain in government and academic institutions, as well as businesses.

India's tech industry association Nasscom and Canada's Blockchain Research Institute (BRI) said they would also create a center of excellence in India to provide "high-end technology capabilities."

The announcement coincided with Canadian Prime Minister Justin Trudeau's visit to India this week.

Blockchain, an internet-based ledger that keeps a public record of online transactions, is being touted as the future of the digital economy for its wide range of potential applications. India plans to use it to digitize everything from land records to healthcare, the head of a government-run think-tank said on Twitter earlier this month. But blockchain is still best known for providing the platform for virtual currencies such as bitcoin and ethereum.

The Indian government has repeatedly warned that virtual currencies have no official backing, even likening them to "Ponzi schemes" earlier this year. Experts believe India could be preparing tough regulations, following recent moves in this direction by China and South Korea.

But India is also gung-ho about the underlying technology. Finance Minister Arun Jaitley said recently that the country would "explore use of blockchain technology proactively," even as he was denouncing cryptocurrencies in his annual budget speech.

Canada has become an attractive destination for bitcoin "miners," who use computer algorithms to unearth the virtual currency by solving math problems, as big markets like China crack down on the activity.

*Source: Published on CNN, February 21, 2018.

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.

ITU Fintech Center Inks Agreement With Karandaaz Pakistan For Financial Inclusion Through Technological Solutions*

Information Technology University (ITU) of the Punjab and Karandaaz Pakistan entered into an agreement to initiate three research projects through the Fintech Center established at ITU. The three specific academic researches undertaken by this FinTech Center will improve the existing knowledge on women's use of digital financial services and the barriers they face. The research center will help to develop a deeper understanding of the challenges in financial inclusion and exploring the potential of data science and Information Communication Technologies as a viable solution.

The signing ceremony held here today was also witnessed by a delegation of the Bill & Melinda Gates Foundation (BMGF), which provides funding support to Karandaaz to promote financial inclusion of individuals through digital technologies.

Women in Pakistan often face multiple barriers in availing formal financial services. Theses researches will help in understanding and proposing solutions to mitigate these barriers. The researches shall be conducted in Pakistan with technical collaboration between Digital Financial Services Research Group of the University of Washington, Seattle and ITU faculty. One of the researches will focus on viability of a mobile app to form a rotating savings and credit association of women that will help them save and borrow collectively. Another research will help in designing a digital financial system for business and personal use of micro entrepreneur women. The third research will focus on digital solutions to safeguard women against SMS frauds in Pakistan.

*Source: Published on Karandaaz, dated January 31, 2018

Industry Collaboration to Promote Financial Inclusion for Women*

A collaboration amongst four Pakistan and multi-national organizations aims to enhance the availability of financial services to low-income women across Pakistan. The partnership, announced today, brings together the technical expertise of Pakistan's premiere mobile financial services provider JazzCash and consumer products giant Unilever Pakistan Limited. The project will be executed in Pakistan with the support of the Pakistani non-profit development finance company, Karandaaz Pakistan and global nonprofit, Women's World Banking. The partnership aims to research, design and develop an agent banking model that will serve low-income women who often face barriers to accessing formal financial services.

The project builds on Unilever's vast network of Guddi Bajis, female retail agents, who sell Unilever products in rural and low-income communities across Pakistan. Women's World Banking will draw on nearly 40 years of researching women's lives to develop and test solutions to enable these Guddi Bajis to serve as mobile banking agents. These female entrepreneurs will be an extension of Jazz's retail network, making the JazzCash mobile account available to women in rural neighborhoods using mobile and digital technology. This type of agent banking allows women to bank near their homes, cutting the cost of transport and time away from home and work, which can make saving at a bank branch impossible.

*Source: Published on Karandaaz, dated January 31, 2018

Alipay in Pakistan?*

DOES PAKISTAN'S DIGITAL PAYMENTS' LANDSCAPE FINALLY HAVE THE BREAKTHROUGH IT WAS LOOKING FOR?

China's Alipay, which has over 800 million users across multiple markets, is about to enter Pakistan. E-commerce watchers would now wish that Alipay's founder, the Alibaba – which spun off Alipay from its e-commerce setup some years ago but still owns Alipay's underlying technology – also follows suit soon.

Ant Financial Services, the group that owns Alipay, has made a deal to buy 45 percent of Telenor Group's stake in the Telenor Microfinance Bank, formerly Tameer Bank, at a value of $184.5 million.

This is confirmed by Telenor Group's public statement on this subject. After building critical mass of Easypaisa users, Telenor Pakistan will do well to further scale the business with a formidable strategic partner.

Mind you, Ant is the world's largest Fintech co. It has been focused in the past couple of years on growing its scale overseas. Though its acquisition bid for US money-transfer giant MoneyGram failed earlier this year, Ant has struck local partnerships with digital and financial players in strategic markets like Indonesia, Malaysia, the Philippines, Thailand, Singapore and South Korea.

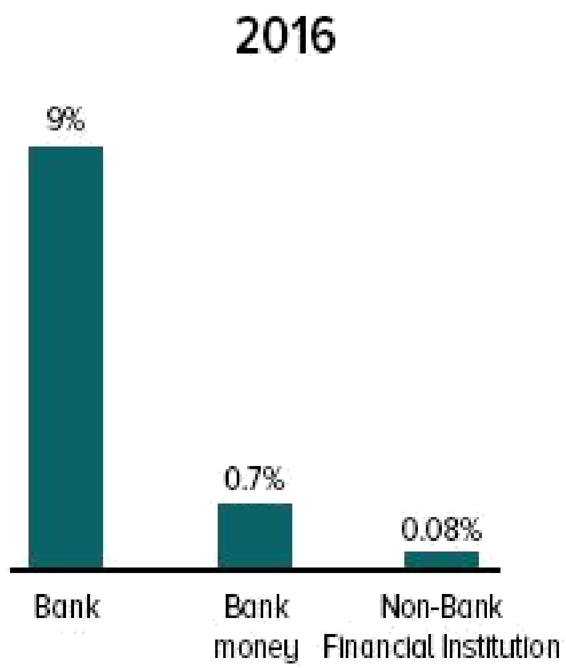
The Telenor-Ant deal, if it goes through the local regulatory checks, is significant for Pakistan, on multiple counts. And four, Alipay's experience in Pakistan may provide impetus to some major e-commerce FDI coming into Pakistan later. While Alipay could help revolutionize the financial side of e-commerce here, local players like Daraz, TCS and others are slowly becoming efficient at merchandising and marketing. Should Alipay find traction in Pakistan, it may convince Alibaba to make its move and find a local partner, or target.

*Source: Published on Business Recorder, dated March 15, 2018.

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.

Financial Inclusion Breakdown by Accounts*



With only one in 10 adults (9%) financially included, Pakistan is one of the largest unbanked countries in the world.

Although the nascent mobile money industry has enabled thousands of poor Pakistanis to remit cash and pay bills with ease, less than one percent Pakistanis have registered mobile money accounts.

*Source: Published on Finclusion

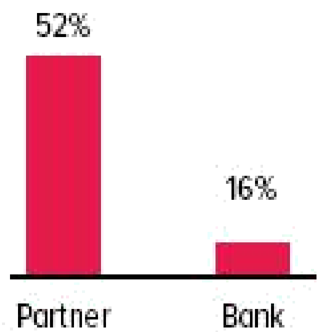
Start up Ecosystem Market Map of Pakistan*

The Start up Ecosystem Market Map by KASB Securities features start ups from KASB's proprietary database of over 500+ companies. These companies are powerfully transforming the traditional landscape of financial transactions and playing a pivotal role in the economic growth of Pakistan. They include but are not limited e-commerce, food delivery, transportation & tourism, real state portals, and healthcare companies.

*Source: Pakistan Strategy Report; The Tech Boom & CPEC Wave, published by Oxford Frontier Capital & KASB Securities, March 2018.

Who do you trust more with your money – your partner or your bank?*

A recent survey for the Guardian and TSB by Ipsos Mori reveals that 52% of adults who are currently in a relationship said they'd trust their partner with their money over their banks. Only 16% of adults who were in a relationship said they'd trust their banks more with their money.



André Spicer, professor of organisational behaviour at the Cass Business School at City, University of London, says the reason behind these results is the fact that we tackle the relationships differently. "People have a deep relationship with their partners and shallow relationships with their bank," he says. Spicer adds that there is more opportunity to monitor a relationship with a partner, simply by the amount of time we dedicate to this versus analysing our financial partnerships.

Spicer stresses that the digital age is changing our relationship and attitude to money. "As money becomes virtualised we tend not to think about it as much," he says. "The result is that sometimes we are more trusting than if we were dealing with real notes and coins."

Interestingly, whether we can trust our bank seems to be a bigger concern for those aged 18-24 than any other age group questioned. For this younger group, online banking or a banking app (55%) was considered the most important quality in a current account provider, swiftly followed by being trustworthy (38%).

With the potential to make our busy day-to-day lives easier, it's easy to see why an online banking or a banking app has such huge appeal. Banks are increasingly upping their game with convenient features for modern multi-taskers who want online banking to make banking processes smoother.

*Source: Published on The Guardian dated February 14, 2018.

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