

## **Syed Salim Raza: Need for alternative delivery channels in promoting access to finance**

Speech by Mr Syed Salim Raza, Governor of the State Bank of Pakistan, at the Pakistan Branchless Banking Conference 2010, Karachi, 17 April 2010.

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*Dr. Muhammad Yasin, Chairman Pakistan Telecommunication Authority,  
Mr. Ali Arshad Hakeem, Chairman NADRA,  
Mr. Haroon Sharif, Regional Advisor DFID,  
Distinguished Speakers,  
Ladies and Gentlemen,*

1. On behalf of SBP, may I extend a very warm welcome to all, to Pakistan's Branchless Banking Conference 2010. Today's forum has participants from diverse backgrounds, from the banking, microfinance, and telecommunication sectors, as well as donors and government agencies, setting the stage for a creative and fruitful working session.

2. There are about 4 billion unbanked people<sup>1</sup> in the world, which is more than two-thirds of the population of low and middle-income countries. In Pakistan, the ratio of financial exclusion is even higher. In spite of the availability of an enabling policy environment, and government and donors-supported incentives, the existing outreach is about 12%. It is in our greatest self interest to develop inclusive financial systems which provide low income and marginalized communities with increased access to viable financial services, thus allowing them to become a critical component in, and contribute to, the country's economic development.

### **Alternative delivery channels**

3. Traditionally, the provision of financial services to the low income population is often based on personal, one-to-one relationships, making it human resource intensive. Thus, financial institutions have to incur high costs for building and maintaining branch networks and developing trained personnel. Alternative delivery channels can reduce these costs and offer a balance between personalized services and emerging transactional services, such as mobile banking. Research conducted by the CGAP Technology Program in 2008 found that using third-party agents costs on average 30 times less globally and 76 times less in Pakistan and replacing them with a mobile phone further cuts costs in half.<sup>2</sup> The most common of these delivery channels include mobile phones, third party agents, and use of PoS terminals.

4. In addition to significant cost reduction, alternative delivery channels expand outreach to areas in which the traditional bricks and mortar approach is unfeasible, and also increases product diversification by making savings and remittance products convenient, efficient and profitable. On the client side, such delivery channels provide unprecedented convenience through remote payments. Here, I would like to mention that SBP is facilitating the microfinance sector in rationalizing current high cost structures. GoP has granted certain

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<sup>1</sup> M. Pickens, D. Porteous, and Sarah Rotman, "Scenarios for Branchless Banking in 2020", Focus Note No. 57, CGAP and DFID, Oct 2009.

<sup>2</sup> G. Ivatury and I. Mas, "The Early Experience with Branchless Banking", Focus Note No. 46, CGAP, April 2008.

tax incentives to the sector. We expect that NADRA would also favorably consider its fee structure for clients' verification for MFBs.

### **Branchless Banking – international experience**

5. Ladies & Gentlemen, mobile banking has come out globally as the most innovative alternate delivery channel in recent years. Mobile banking has successfully accelerated financial inclusion and changed the financial landscape in many developing countries. Mobile phones are compensating for inadequate infrastructure, slow postal services, and the limited coverage of banking systems in these countries.

6. Take for example, Kenya where the largest mobile service provider, *Safaricom* launched M-PESA in 2007. It now has nearly 7 million clients in a country of 38 million people. It records an average of 10,000 new registrations per day. M-PESA offers mobile phone-based services to clients across the country through a network of more than 10,000 agents for account opening, handling of deposits and withdrawals into the customer's virtual "wallet," and customer support services. These agents can take cash from customers and credit it to their mobile account, and transfer money to other registered users. M-PESA has significantly reduced many of the spatial and temporal barriers to money transfer. The important outcome of M-PESA is the penetration of money flows to rural and hard-to-reach areas. According to a recent study, the income of Kenyan household using M-PESA has increased by up to 30% since they started mobile banking.

7. In Asia, Philippines was an early user of mobile banking initiatives. The central bank of Philippines (BSP) has played an active role in the emergence of mobile banking. The BSP allowed two models for mobile banking. In first model i.e. bank-based model, the BSP allowed banks to outsource functions to one mobile operator i.e. Smart Money in 2001. In the second model i.e. nonbank-based model, BSP registered G-Xchange (a subsidiary of a giant telecom, Globe) as a remittance agent in 2004. Under both the models, merchants were allowed to conduct KYC.

8. Most mobile phone based banking in Philippines has been supported by the two giant mobile network operators – Globe and Smart. Out of 39 million "Smart" subscribers, 2.5 million are using "Smart Money"; and out of 23 million Globe subscribers, 1.2 million are using GCash services. According to the BSP, the average home remittance costs the sender between 2.5% to 5% in the conventional system whereas the same routed through GCash or Smart Money would cost less than 2%. Low-income Filipinos now use "mobile money" to send and receive domestic remittances – on average US\$50. They use "mobile money" to purchase airtime and make purchases remotely. Moreover, the policy makers are currently focusing on "savings" as a future service for mobile banking.

### **Branchless Banking – Pakistan**

9. Ladies & Gentlemen, now let us look at Pakistan. Our financial sector is going through a dynamic transition, led by increasing uptake of technology solutions. This transition can be seen in recent e-banking data, with a transactional volume of 46.4 million e-payments valuing Rs. 4.1 trillion during a single quarter of October–December 2009. These volumes are expected to grow substantially as Pakistan has currently 95 million mobile users compared to 26 million bank accounts, highlighting the inherent potential for mobile banking in Pakistan.

10. Pakistan is the first country in South-Asia to have issued Branchless Banking Regulations, providing commercial and microfinance banks a supportive regulatory environment for developing partnerships and innovative delivery channels. Our regulations support the bank-led model, in which the entire control & responsibility of the product and program rests with the authorized financial institution. Due to inherent risks and existing legal

framework, the telco-led model has not been permitted at the moment. These actions were reinforced by the Ministry of Information Technology and Pakistan Telecommunication Authority, which issued policy directives to provide technical support for the implementation of Branchless Banking in Pakistan.

11. With an enabling regulatory structure and growing technology sector, Pakistani banks and microfinance players can now utilize international best practices and models to diversify their financial services and develop partnerships for managing special initiatives.

12. As a result of Branchless Banking regulations, at present three models are operating in Pakistan. The *first* is MFB's kiosks at retailer's premises. Under this model, the First Micro Finance Bank (FMFB) developed partnership with Pakistan Post to expand its delivery channels. Under this model, more than 40,000 borrowers have been reached out through 68 offices of Pakistan Post.

13. The *second* model is "Retailers" acting as MFB's agents. In October 2009, Telenor and Tameer launched the largest Branchless Banking initiative in Pakistan, Easy Paisa. This allows individuals to use services such as utility bills payment, domestic remittances, and a deposit account (M-wallet) by visiting their nearest EasyPaisa authorized shop, Telenor Franchise, Telenor Sales & Service Center or Tameer Bank branch. Tameer has utility bills payment arrangement with nine utility companies. Tameer has opened over 25,000 Branchless Banking customers accounts. Cumulative volume of transactions of Branchless Banking services till the end of March 2010 is over Rs. 4 billion with over 1.3 million transactions. Going forward, Tameer will also introduce foreign inward remittances.

14. The *third* model is led by commercial banks. MCB Bank is currently providing both transactional and non-transactional services through mobile phones to its registered customers. MCB Bank has registered over 60,000 customers with 200–300 new customers signing up each on MCB Mobile. MCB Bank has transacted over Rs. 1 billion with over 175,000 transactions. In addition, another commercial bank, UBL is also providing Branchless Banking. UBL's model is different from Tameer's since it is based on selection of individual agents that will work as "Direct Agents". UBL has also successfully worked for IDPs for dispersal of government fund and multilateral donor funds through their Branchless Banking infrastructure. In addition, SBP has recently allowed Dubai Islamic Bank to offer Branchless Banking at convenient public locations like Shopping Malls, Clubs, Societies and Schools where potential customers exist. The Branchless Banking services shall be provided by creating a Branchless Banking Desk at these public locations where Dubai Islamic Bank's staff shall serve the customers' banking needs.

15. In addition, a new model is emerging in which a retailer or a telco establishes its own microfinance bank. I am happy that a few large retail organizations and mobile network operators are currently in the process of establishing their own Microfinance banks to leverage their retail networks and mobile phone technology to extend the distribution of financial services throughout Pakistan. This new model has a great potential to expand the frontiers of financial access especially in the far-flung areas. At present, State Bank is reviewing their applications for the grant of microfinance bank license.

### **Concluding remarks**

16. As Branchless Banking channels become increasingly available, the speed at which financial services reach the un-served population will depend on the actions and decisions of both the public and private sectors. State Bank has developed a regulatory environment which extends the frontiers of Branchless Banking. SBP will continue to actively engage with financial as well as non-financial players to stimulate the adoption of innovative delivery channels for expanding the frontiers of financial access.

17. Supported with the necessary regulatory environment, the private sector has to take the necessary steps for rapid uptake of Branchless Banking. The providers should set realistic expectations of their time horizons and potential returns. Those institutions which build their competence to manage potential risks early, will have more robust results.

18. The increasing use of Branchless Banking will help lift the trajectory of financial inclusion in the country. Critical to this trajectory are the decisions that we take and it is our joint responsibility to build a healthy and proactive financial sector in the country.

I wish for vigorous and productive discussions at today's Conference and look forward to have your valuable insights and recommendations for our current as well as future Branchless Banking development initiatives.