

Session on
Branchless Banking and Savings
17 March 2012, Marriott, Karachi

Pakistan Poverty Alleviation Fund (PPAF) recently completed two pilots on branchless banking with Tameer Microfinance Bank's (TMFB) "EasyPaisa" and United Bank Limited's (UBL) "Omni Dukaans" (Omni) with five PPAF partners. The initiatives served over 50,000 microfinance clients in remote and rural areas of the Punjab and Sindh province. The focus of the pilot remained on collections from microcredit clients. Against the backdrop of findings and results, other avenues such as disbursement, saving and remittance services are now being explored.

To determine the way forward and address bottlenecks, the Financial Services Group (FSG) at PPAF arranged an interactive session on mobile and branchless banking (BB) and savings on March 17, 2012, at the Marriott, Karachi. Presided over by the State Bank of Pakistan, over 45 POs and representatives of major stakeholders including Pakistan Microfinance Network, Shorebank International, a number of Insurance Companies and KfW participated in this session.

PPAF's objectives were to explore opportunities for scaling up the BB models as they hold tremendous promise for reducing microfinance (MF) transaction costs while opening new avenues for efficiently increasing outreach. The session also explored and assessed possibilities available to Microfinance Service Providers (MFPs) in savings through the establishment of linkages between informal savings groups (ROSCAs, for instance) and formal banks that could help small savers access formal banking services.

During the session, SAFWCO and Kashf Foundation shared their experiences with the BB models. The MFPs highlighted strengths and potential possibilities made available through Branchless Banking. Representatives from Tameer Microfinance Bank (TMFB), United Bank Limited and Telenor Pakistan were in attendance to address queries of MFPs with regard to Branchless Banking. These representatives highlighted the potential, scope and benefits of branchless and mobile banking options available to the MF sector, especially in terms of reducing transactions costs, expanding outreach and increasing convenience for clients. The interactive knowledge sharing session led to an increased understanding and interest of MFPs in Branchless Banking and Savings.

Branchless Banking

Setting the Scene

Mr. Ahmad Jamal, Senior Group Head, PPAF, welcomed participants to the session. He remarked that the MF sector was ideally placed for rapid expansion. Such expansion was crucial, he added, for bringing about cost efficient and client-centric MF services.

Dr. Saeed Ahmed, Director, Agricultural Credit and Microfinance Department, State Bank of Pakistan (SBP) in his address felicitated PPAF for convening experts of the MF sector on BB and savings. He highlighted the positive role that the central bank has played in setting up a conducive policy environment for the sector. After detailing the state of financial exclusion in Pakistan, Dr. Ahmed underlined the need for utilizing innovation and hoped that these new initiatives in the sector would become potential “game changers” in terms of increasing financial inclusion in Pakistan. He also stressed the need for future collaboration between all stakeholders of the sector.

Syed Mohsin Ahmed, Chief Executive Officer (CEO), Pakistan Microfinance Network (PMN) extolled the importance of risk mitigation systems and financial literacy initiatives. Mr. Ahmed also pointed out that the sector needed to build and maintain robust grievance redressing systems for MF clients in order to improve the overall working of the sector.

Mr. Nadeem Hussain, President and CEO of TMFB, spoke about the importance of the overall operating environment for the MF sector. He reminded participants that the Economist’s Intelligence Unit had rated Pakistan’s overall business environment for the MF sector as the 5th best in the world. He emphasized that MFPs must take advantage of this conducive business environment for improving financial access.

Mr. Amjad Arbab, Country Manager, Shorebank International delivered a presentation on “International Experiences in Scaling-up Branchless Banking”. He emphasized that BB must move beyond payments to offer the full suite of financial services to MF clients including loans, savings, insurance, merchant payments, bill payments, remittances, G2P payments and payroll transfers. Mr. Arbab also stressed the point that every country will develop its own unique BB model, which will conform to its own regulatory framework.

Yasir Ashfaq, Group Head, FSG, PPAF, in his remarks pointed out that investments made in the Microfinance Sector by SBP and PPAF, the time has now come for MFPs to deliver. MFPs must:

- i. Explore new avenues and partnerships to raise capital for growth
- ii. Provide a broad range of products and services— notably segmented product delivery mechanisms, savings services, means to lower cost of delivery and increase efficiency
- iii. Reach clients where microfinance services are limited

On savings, he added that there is a vast potential savings pool in Pakistan. However, it remains a challenge for banks to redesign and rebrand products so that savings services can become viable for the poor and can substitute existing informal saving mechanisms.

Experience Sharing

This was the first moderated session of the day and the panel comprised of Dr. Saeed Ahmed, Yasir Ashfaq and Syed Mohsin Ahmed. During this session, SAFWCO and Kashf Foundation presented the results of the pilots they ran with BB methodologies.

SAFWCO and EasyPaiza

SAFWCO piloted the Easy Paiza BB methodology through two branches in *Jhole* and *Matiari* branches in the Sindh province with a total of 606 clients. The total amount deposited using EasyPaiza was about PKR 1.3 million. The representative from SAFWCO outlined the strengths and weaknesses from the pilot.

Strengths - EasyPaiza BB model:

- i. Cash Risk Mitigation: Reduction in the risk of theft and armed robbery
- ii. Flexibility: Ease in repayments
- iii. Customer service: TMFB and EasyPaiza provided prompt facilitation through a 24/7 customer call centre

Key Future Focus Areas – EasyPaiza BB Model

- i. On some occasions the unique MF client ID was not accepted
- ii. EasyPaiza did not provide branch-wise data for repayment trends for this pilot

Kashf Foundation and UBL Omni

Kashf Foundation made a presentation of its experience of using UBL's Omni BB methodology. The representative from Kashf Foundation pointed out that currently the Omni service is available in 138 branches through more than 1,000 UBL Omni agents. On average, 50,000 transactions worth PKR 100 million are routed through Omni agents every month. Since its inception around 184,000 transactions worth PKR 400 million have taken place.

Strengths – Omni Model:

- i. MFI Client Satisfaction – reduced travel time and cost of depositing loan repayments
- ii. Enhanced MFI Staff Productivity – Improved teller productivity due to considerable reduction in client traffic for depositing repayments
- iii. Minimized Cash Risk – Reduction in the risk of theft and armed robbery
- iv. Provides flexibility to collect recoveries on holidays and after working hours
- v. Omni also has a 24x7 call center for customer complaints (staffed with over 500 employees)

Key Future Focus Areas – Omni Model

- i. Cost of Delivery – As branchless banking is an innovative new service, and the old and the new disbursement modes are run parallel the cost of delivery of MFIs increase. Additionally there is a need for further rationalization per transaction charged by the service providers.
- ii. Strengthen agent infrastructure – ensure availability of basic infrastructure required for completion of transaction, i.e. printer, computer, backup power supply
- iii. Process integration to enable disbursements – review and align business processes to enable disbursements through Omni agents, ATMs and pre-paid cards etc.

Group Discussion

Participants were divided up into 5 groups so that they could discuss and exchange knowledge about their experiences with BB methodologies as well as identify potential concerns with respect to branchless and mobile banking technologies. After this, one representative from each group spoke briefly about what they discussed, issues highlighted and potential solutions.

EasyPaisa and Omni also made presentations in order to provide their responses to some of the queries raised in the group presentations.

Mr. Khurrum Rizvi from UBL presented on behalf of the OMNI team. He highlighted the fact that UBL Omni had moved on from pilots and were executing this model as a full throttle commercial business. He stated that this was due to Omni's success and experience with G2P projects that leverage the Omni agent network for cash disbursements. The high volumes from Kashf are evidence of the success of this model and OMNI is planning to introduce disbursement services to the MFP. He added that UBL Omni had its own proprietary technology which gives it the ability to make changes in collection cycles, rules, calculations, processing, etc. on a very rapid basis and the product roll-out is much faster than products that require development from 3rd party international software providers. Process Integration to enable disbursements transactions via agents, ATMs, etc was highlighted during the presentation as one of OMNI's strengths. Since Omni is a part of UBL a full services bank, they offer all channels i.e. ATM, POS, Agent, Mobile and Internet Banking. They are currently the only Branchless Banking service provider in the country to offer ATM cards at agent location.

Queries and Responses

Issue 1: BB agents' credit limit is a concern as the average BB agent only has a limited amount of credit line from banks which could prevent them from increasing both the magnitude and frequency of transactions

Response: EasyPaisa/TMFB and OMNI representatives assured participants that if a particular client is turned away for lack of cash then the SBP would hold the bank responsible. For this reason, banks constantly monitor the liquidity trends and needs of their agents. If a given agent network in a particular area starts experiencing high liquidity demands, the bank strengthens that retail channel through the establishment of super-agents or other mechanisms that cater to liquidity requirements of the area under their supervision.

Issue 2: At present, BB transaction costs are on the higher side

Response: According to EasyPaisa representatives, rates are negotiated and are set on a case to case basis. OMNI representatives reported that their rates were the lowest in the market but even then, rates would be negotiable based on transaction volumes.

Issue 3: BB could result in weaker relationship between MFI and its clients, especially if the disbursements and repayments are going to be done through agents

Response: This potential weakening of the relationship between clients and the MFIs can be easily avoided through establishing stringent KYC protocols

Conclusion

Nadeem Hussein responded to some of the questions and concerns raised during the group discussions about potential fraud and BB agent flight risk on behalf of both TMFB and OMNI. Mr. Hussein stated that BB agent flight risk is being minimized through proper due diligence on part of the banks. He also added that banks are responsible for agents and that the banks would also take on responsibility for providing the required liquidity for BB transactions. At the same time, Mr. Hussein recognized that though transactions costs may be on the higher side, they will come down as the volume of transactions will grow with time. He concluded by pointing out that both banks are operating customer call centers 24hrs a day in order to rectify customer complaints.

The discussion was concluded by Dr. Saeed Ahmed who reiterated the importance of new BB technologies for improving financial inclusion in Pakistan. He stated that it is good to have open discussions and finding solutions that would help avoid any failure in the future and contribute towards smoother growth.

Second Half: Savings

Mobilizing Savings – NRSP Experience

Dr. Rashid Bajwa, CEO NRSP presented on the state of savings in the MF sector in Pakistan. He was of the opinion that the sector has not lived up to its true potential judging from the insignificant amount of savings collected from MF clients. He also added that there was tremendous potential in Pakistan for microsavings. There are about 3.7 million savers associated with the MF sector – most of these are forced savers. He also presented a model he titled “Organization-to-Organization (O2O)” which purports linking MFIs’ branches with BB methodologies to produce additional non-credit revenue for MFIs through commission and fees so that they could cover their operational costs – improve operational self-sufficiency – with greater ease.

Group Discussion

Participants were divided into five groups so that they could discuss and exchange knowledge on the topic of savings and come up with innovative solutions for increasing the amount of savings within the MF sector.

Key Issues and Response for Savings

Issue 1: The benefits emanating from savings need to be articulated, circulated and understood.

Response: Participants felt that the benefits of savings must be communicated to potential savers by enhancing MFI-client interactions on the subject.

Issue 2: MF sector has not been able to match clients’ needs for savings with the availability of savings products

Response: MF sector needs to come up with new suitable savings products that should be able to serve the needs of micro-savers. For this reason, the MF sector should place further emphasis on product development

Issue 3: MFIs should be able to leverage financing from MFBs against savings mobilized from their clients to increase their financial base for on-lending

Response: The MFB Ordinance restricts banks to a maximum of PKR 500,000 for individual loans and currently there is no provision in the ordinance for an extension of credit line to MFI. However, the MFIs and Banks can look into the possibility of suggesting revision in MF Ordinance and the matter can be taken up with SBP for making the necessary changes.

Issue 4: MFIs face issues in bank account opening for COs and credit groups

Response: Branchless Banking models through both carriers would facilitate MFPs in bank account opening. PPAF added that the apex would deem such bank accounts acceptable for all practical purposes.

Conclusion

The proceedings for the day were concluded by Qazi Azmat Isa, CEO PPAF, who thanked all the participants especially The State Bank of Pakistan, Pakistan Microfinance Network, UBL, Tameer Microfinance Bank, Shorebank International, Insurance Companies, KfW as well as the partners and remarked that this seminar had been a “feast for the intellect.” Mr. Isa praised the efforts of FSG for organizing the session and for bringing together various stakeholders to discuss Branchless Banking and savings. Mr. Isa underscored the importance of a strong relationship between MFPs and MF clients. Relationships, he added, must be strengthened even as the sector moves to embrace technological innovations like BB. The MF sector needs to promote financial literacy. He added that the sector needs to move forward with a client centric focus and introduce holistic & inclusive financial services to the poor.

Way Forward

The convening of this seminar on BB and savings generated interest amongst the PPAF’s POs. A number of them indicated that they would be extremely interested in finding ways in which they can incorporate BB methodologies for the disbursement of loans and for the collection of repayments. It seems likely that this increased interest in BB methodologies will go a very long way in assisting with increasing outreach and impact of MF in Pakistan.

The discussion on ways to improve savings within the MF sector exhibits great potential for new, innovative/out-of-the-box solutions for increasing savings and the introduction of holistic inclusive financial services.

The best outcome of this session was the fact that PPAF POs desire a further strengthening of the relationship with banks. At the same time, MFPs would endeavor to fully leverage BB technologies in order to increase MF outreach as well as create a renewed thrust to increase savings leading to better financial inclusion. Knowledge shared and created during this session has shown that there is great scope and interest in Branchless Banking and Savings as bottlenecks that constraint MFPs have been removed through the introduction of required technological platforms.