

BRANCHLESS BANKING – A tool for financial inclusion

1) Definition

Branchless Banking (BB) is one of the marvels of innovation in the fields of Information Communication Technology (ICT) and BPR (Business Process Re-engineering). It is the mode of rendering financial services through distribution network without having conventional branch brick and mortar set up.

2) Distribution Network

The success of BB model is primarily dependent upon the efficient management of distribution network. Distribution network is the back bone of BB. The Network includes two segments i.e. Agent and Technology. The agent may take the form of retailers, shopkeepers, petrol pumps, super market chain, street vendors, couriers, post offices etc. You can imagine the variety of distribution channels to widen the outreach of financial services for the masses. While each agent is equipped with adequate technology infrastructure to support the processing of financial transactions. Most frequent technologies include Mobile Phone, Point of Sale (POS) terminal, Automated Teller Machine (ATM), Biometric Verification Terminal, Internet etc.

3) Financial Inclusion

Financial Inclusion refers to provision of financial services to unbanked/ low income segment of society at an affordable cost. The ratios of financial inclusion are one of the prominent factors of economic growth and prosperity. Acquisition of financial services by the unbaked/ low income segment could improve the standard of living, stabilize earnings, evolve opportunities, promise better returns on savings, enhance literacy/ education ratio, ensure availability of cheap credits, raise government revenues etc.

Following are some major factors which limit the process of financial inclusion:

- a. Non-availability of requisite financial services
- b. Low literacy ratio
- c. Inefficient Product distribution channel
- d. Lack of awareness
- e. Lack of customized financial products for low income segment i.e. savings, insurance, advances etc.
- f. Strict regulatory compliance requirements i.e. KYC (Know Your Customer), CDD (Customer Due Diligence) etc.
- g. Lofty Transactional cost

4) Financial Inclusion through BB

BB provides a solid platform to address limitations of conventional banking network to empower low income/ unbanked segment of society. BB carries following advantages in quest of financial inclusion:

- a) Availability of admissible financial services at lower cost

- b) Robust roll out of branchless banking delivery channel
- c) Potential to tap unbanked/ low income segment of society due to minimum regulatory requirements regarding CDD, KYC etc.
- d) Pledge seamless outreach of financial services

5) Statistics

The level of financial inclusion in Pakistan specifically and in the region generally is depicted in an extract from “The World Bank Financial Inclusion Data” indicated following comparison of total population of Pakistan/ region for the year 2014:

Parameters	Pakistan	South Asia	High Income OECD countries
	<i>% of total population having age of 15+ years</i>		
Bank Account	13 %	46 %	94 %
Formal Saving	3 %	13 %	52 %
Formal Borrowing	2 %	6 %	18 %

**Organization for Economic Cooperation & Development (OECD)*

6) BB Model

As per the Policy of State Bank of Pakistan only Bank led model of branchless Banking is allowed for the establishment of BB setup. Bank led model may take the following forms:

- a) One-to-one (1-1) Model
In this model one bank offers mobile phone banking services in collaboration with a specific Telco. As a consequence, the services may only be offered to customers using mobile connection of that specific telco.
- b) One-to-many (1-∞) Model
In this model a bank offers mobile phone banking services to customers using mobile connection of any Telcos. This model offers the possibility to reach to any bankable customer who has a mobile phone connection.
- c) Many-to-many (∞-∞) Model
In this model many banks and many telcos join hands to offer services to virtually all bankable customers.
- d) Alternate Channels
Branchless banking can also be done using agents other than Telcos and using technologies not limited to mobile phone (like GPRS, POS terminals etc.).

7) Types of BB Transactions

SBP has allowed following types of BB transactions:

- a) **Opening and maintaining a BB Account:** A BB account can be opened and operated by a customer with a bank through the use of BB channels. Account capabilities/limits are commensurate with the level of customer due diligence (CDD) and KYC procedures the customer has undergone.
- b) **Account-to-account Fund Transfer:** Customers can transfer funds to/from their BB account from/to their other pre-registered/regular accounts (current/saving bank accounts, loan limit accounts, credit card accounts etc.)
- c) **Account-to-Person Fund Transfer:** Customers can transfer funds from their BB account to other non-BB accountholders. The transaction limits and KYC requirements are explained in relevant section of these Regulations.
- d) **Person-to-person Fund Transfer:** Any person without a BB account can also transfer funds to any other non BB accountholder. The transaction limits and KYC requirements are explained in relevant section of these Regulations.
- e) **Cash-in and Cash-out:** Customers can deposit and withdraw funds to/from their BB account using a variety of options including bank-branch counters, ATM machines and authorized agent locations.
- f) **Bill Payments:** A BB account can also be used to pay utility bills (e.g. Gas, Electricity, Phone etc.) However, the amount of payment of utility bills shall not be counted as part of existing transaction limits allowed to BB accountholders.
- g) **Merchant Payments:** Customers can use a BB account to make payments for purchases of goods and/or services.
- h) **Loan Disbursement/Repayment:** FIs, particularly MFBs may use BB accounts as a means to disburse loan amounts to their borrowers having BB accounts. The same accounts may be used by customers to repay their loan installments.
- i) **-Remittances:** BB accounts may be used to send / receive remittances subject to existing regulations.

8) Types of Branchless Banking Accounts

The State Bank of Pakistan has allowed following accounts under branchless banking ambit:

Account Type	Description	Transaction Limits	Maximum Balance Limit
Level – 0	Basic BB Account with low KYC requirements and low transaction limits	Rs. 15,000 per day Rs. 25,000 per month Rs.120,000 per year	Rs 100,000
Level – 1	Entry Level account with adequate KYC requirements commensurate with transaction limits.	Rs. 25,000 per day Rs. 60,000 per month Rs. 500,000 per year	No Limit
Level – 2	Top level account for individuals as well as businesses offering all BB facilities and subject to full KYC requirements.	FI must set limits commensurate with each customer's profile and FI's own capacity to monitor activities in such accounts.	
Level – 3	Account specific for merchants, businesses, banking agents,	FI must set limits commensurate with each customer's profile and FI's own capacity to	

	technology service providers and corporations. These accounts may also be utilized for various disbursements like salaries/payrolls, pensions, grants, donations etc.	monitor activities in such accounts.
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In addition to account-to-account funds transfers, following two categories are being introduced for domestic fund transfers:

Types	Description	Limits
Account to Person	Fund Transfers by BB accountholder to other persons (non- accountholders)	Rs. 25,000 per month (For transactions up to Rs.15,000, requirements of person-to-person funds transfer shall apply)
Person to Person	Person-to-Person fund transfers (Non-accountholders). Persons availing this service shall be registered by the FI after due verification process for subsequent transactions	Rs. 15,000 per month

9) Typical Branchless Banking Mechanics

- a) BB license from issued by SBP to the FI
- b) FI entered into super agency agreement with the Telco
- c) Deployment of BB Core system
- d) Telco entered into sub agency agreement with franchise/ retailer network for BB transactions
- e) Registration of franchise/ retailers in the BB Core system
- f) Establishment of cash management procedure to enrich franchise wallets (BB accounts)
- g) Retailers enrich their wallets through purchase from franchise
- h) Walking customers approach sub-agents for remittances/ other payments
- i) Each remittance/ other payment charge according to schedule of charges
- j) The beneficiary receive remittance from sub-agent
- k) Registration of individuals BB account to be used for remittance/ other payments
- l) Commission on BB transactions to be divided among Telco, Franchise, Retailer and FI
- m) The BB transaction may also be initiated through POS, ATM, other electronic channels

10) G2P

The terminology **G2P** stands for “Government to Person”. It signifies social payments made by Government to masses. The social disbursement usually involves large number of people requiring immediate/ timely disbursement of funds. The recent examples of such payments are made under BISP, IDPs, EOBI, pensions, bait-ul-mal payments etc. The BB infrastructure provides the Government to remit funds to different social segments with transparency along with efficiency.

11) Branchless Banking Indicators/ Players

A review of BB transactions/ indicators in Pakistan, for the last two years, indicated promising and steady growth.

Indicators	2013				2014		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Number of agents	64,716	93,862	110,214	125,027	148,324	168,615	186,618
Number of Accounts	2,398,888	2,642,941	2,966,306	3,475,458	3,831,868	4,238,178	4,713,145
Deposit as of date (Rs in million)	1,391	2,391	2,320	2,639	4,911	6,219	5,652
Number of transactions during quarter (No. in 000)	41,130	44,760	51,914	54,100	68,535	71,194	66,806
Value of transactions during quarter (Rs in million)	170,796	173,231	224,024	234,646	278,348	326,131	375,945
Average size of transaction (Rs)	4,153	3,870	4,315	4,337	4,061	4,581	5,627
Average number of transactions per day	457,005	497,333	576,822	601,113	761,501	791,041	742,293

(Source: SBP Quarterly Branchless Banking Newsletter)

Major Players in BB Banking are as follows:

Product	Bank	Telco
Easypaisa	Tameer Microfinance Bank Ltd.	Telenor
Omni	United Bank Ltd.	Multiple
Timepey	Askari Bank Ltd.	Zong
MobiCash	Waseela Microfinance Bank Ltd.	Mobilink
HBL-Express	Habib Bank Ltd.	Multiple
Upaisa	U Microfinance Bank Ltd.	U Phone
Mobile Paisa	Bank Alfalah Ltd.	Warid

12) Branchless Banking – Challenges

- Development of new product/ services
- Alignment the existing Branchless Banking regulatory framework with the customer requirements of new product & services
- Ensure compliance to the regulatory/ operational requirements at sub-agents level having wide span of geographical dispersion
- Impart awareness and training to sub-agents on regular basis at a massive scale
- Reduction in Branchless Banking transaction cost in order to attract un-bankable segments
- Development of secured information technology infrastructure
- Synchronization of management of both FI and Telco
- Development of technology based innovative solutions
- Establishment of public confidence in BB transaction

(Contributed for the EACPE by Syed Naj mus Sahar)