Policy Brief

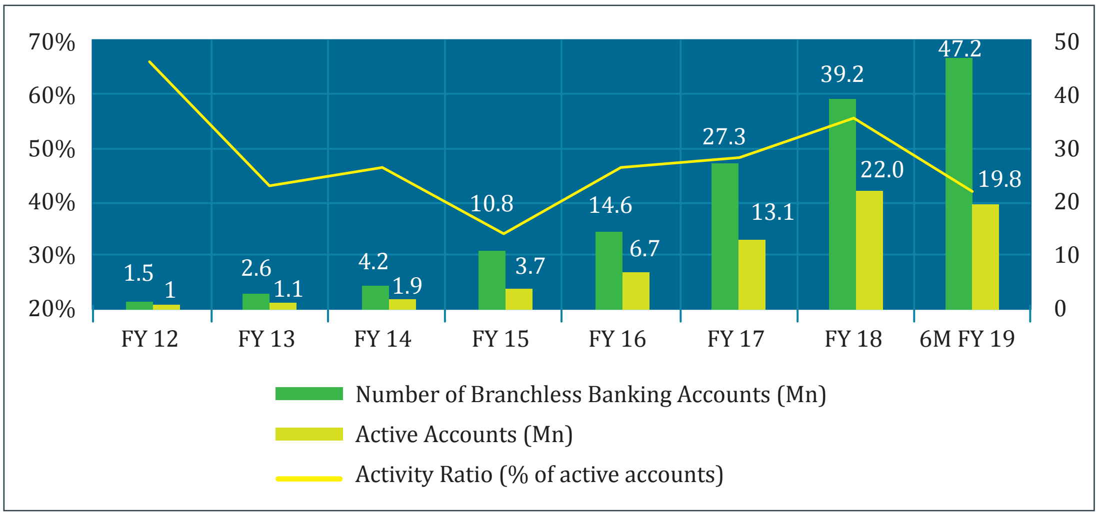
POLICY & REGULATORY BOTTLENECKS FOR DIGITAL FINANCIAL SERVICES IN PAKISTAN

FINDINGS FROM STAKEHOLDER CONSULTATIONS

1. INTRODUCTION

Financial inclusion is widely considered as a powerful tool towards achieving Sustainable Development Goals (SDGs), especially reducing poverty (SDG1), promoting gender equality (SDG5) and enabling inclusive economic growth (SDG8).[1] In Pakistan more than 100 million adults lack access to formal financial services corresponding to 5.2% of the unbanked population of the world.[2] Pakistan's National Financial Inclusion Strategy (NFIS), adopted in 2016, sets the target to extend access to formal bank accounts from 16% of the adult population in 2014 to 50% by 2020.[3] Recently, government has revised NFIS targets and has pledged to achieve 65 million active Digital Transaction Accounts DTAs including 20 million female accounts by 2023.[4] Rapid and sustained expansion of (DTAs) is one of four drivers of NFIS and is considered as a modus operandi for accelerating financial inclusion in Pakistan.

With more than 161 million biometrically verified mobile phone subscribers (77% tele density) and 67 million mobile broadband (3G/4G) users[5], Pakistan stands at the cusp of an unprecedented opportunity to offer a broad range of innovative Digital Financial Services (DFS) to the poor. Recent gains in financial inclusion numbers in Pakistan were mostly due to BB accounts -10 million BB accounts were opened during the period July–December 2017. On December, 2017, there were 50,565,334 Bank Accounts[6], including 37.3 million Branchless Banking Accounts.[7] However, growing inactive BB accounts and gender gap in account ownership remain a matter of concern for the government as well as market players. During last quarter, active accounts numbers have decreased drastically. As of December 2018, out of 47.2 million total BB accounts (9.6 million female and 37.5 million male accounts) only 19.8 million accounts were active.[8]



Source: State Bank of Pakistan (SBP) Branchless Banking Quarterly Reports

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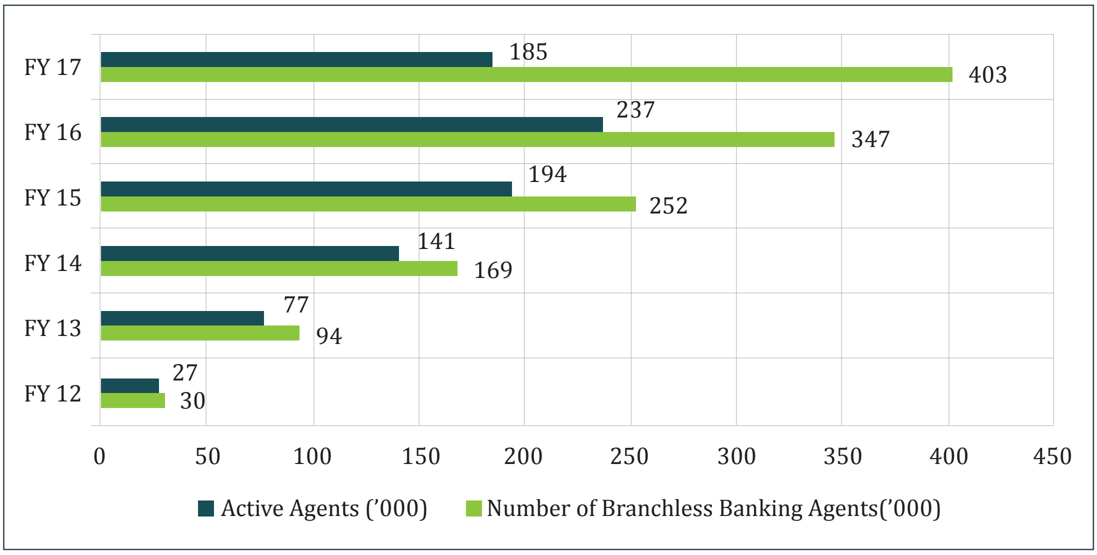
[1] 2017 Financial Inclusion Action Plan of The Global Partnership for Financial Inclusion (GPFI), Page 8, 27 to 29. https://www.gpfi.org/sites/default/files/documents/2017%20G20%20Financial%20Inclusion%20Action%20Plan%20final.pdf ;
[2] http://www.worldbank.org/en/topic/financialinclusion/brief/achieving-universal-financial-access-by-2020
[3] http://www.sbp.org.pk/ACMFD/National-Financial-Inclusion-Strategy-Pakistan.pdf
[4] http://www.finance.gov.pk/NFIS.pdf
[5] March 2019, https://www.pta.gov.pk/en/telecom-indicators
[6] Payment System Review Q1 FY 2019 http://www.sbp.org.pk/PS/PDF/PS-Review-Q1FY19.pdf
[7] Branchless banking Quarterly Newsletter Oct-Dec 2017 http://www.sbp.org.pk/publications/acd/2017/BranchlessBanking-Oct-Dec-2017.pdf
[8] Branchless banking Quarterly Newsletter Oct-Dec 2018 http://www.sbp.org.pk/publications/acd/2018/BranchlessBanking-Oct-Dec-2018.pdf

More than 90 percent of Pakistan's adult population have access to the most affordable information and communication technology (ICT) services in the world, however, the country is still far behind (ranked 102nd) when it comes to the impact of ICTs on enabling access to basic services, including financial services.[9] Despite the technological advancements and strong resolve of the government, Digital Financial Services (DFS) has yet to achieve its full potential to accelerate Financial Inclusion and active use of DFS as envisaged in NFIS. Volume and values of basic BB transactions are improving; however, number of active BB Agents are stagnant, use of BB Digital Accounts is mostly dormant and product offerings are still limited.



Source: State Bank of Pakistan (SBP) Branchless Banking Quarterly Reports

Within this context, Karandaaz Pakistan is developing a series of policy notes to inform the policy discussion on DFS. The primary objective is to identify gaps and bottlenecks in the policy and regulatory environment which need to be addressed to reap the full potential of DFS and achieve the goals specified under the NFIS.

Key challenges identified during extensive stakeholders' consultations include:

- Risk based tiered know-your-customer (KYC) requirements for merchants and agents are missing, which has a bearing on agent and merchant onboarding and thereby customer uptake of DFS. This may also enable Digital onboarding of certain tiers of Agents and Merchants. Roaming Agents may also be used for cash-in cash out transactions.
- Lack of regulatory guidelines for offering innovative digital services, such as small value savings, crowd-funding, Peer-to-Peer lending etc., is another concern raised by the market players during the consultations.
- Comprehensive Data Protection, Information Privacy, and Cybersecurity laws would be required. As the scope of these laws is very broad, specific regulations for FIs may be implemented by SBP. The regulator is wary that the available infrastructure required to allow digital onboarding may not be at par with the advanced countries where digital onboarding is currently allowed. It includes lack of ample capacity of the market players to implement safeguards against cyberattacks, opening of multiple fake accounts, Data Protection and Privacy etc.
- Enabling regulations to facilitate innovation in the financial sector are the need of the day. In order to provide regulatory certainty for innovation, SBP may implement formal processes such as establishment of Regulatory Sandbox approach to balance innovation and associated risks. However, its positive impact on Financial Inclusion may require further deliberations.
- Focused initiatives for financial inclusion of women to bridge the persistent gender gap are required. Tailored policy interventions and products based on unique needs and behaviors of women segment in Pakistan need to be addressed to achieve gender specific NFIS goals.
- Mandatory interoperability might create network effect through increased usability of services; however, a comprehensive review may be required to assess the current market dynamics to decide on timings of such interventions.
- On part of individual account holders, facilitation of first deposit and transaction is the most import aspect for its subsequent use. Initiatives related to consumer literacy and awareness, which are vital for instilling trust in BB services for its use, are also a missing element in BB ecosystem in Pakistan.

[9] IThe Global Information Technology Report 2016 "Innovating in the Digital Economy" Page 18 & 264
http://www3.weforum.org/docs/GITR2016/WEF_GITR_Full_Report.pdf

Based on the consultations, recommendations have also been provided. However, it is important to bear in mind that to devise the way forward, more detailed and intensive research on each of the challenges should be conducted, including lessons from other countries and the particular context of Pakistan's DFS landscape.

2. REGULATORY LANDSCAPE

The State Bank of Pakistan (SBP) is mandated to regulate the monetary and credit system of Pakistan and to foster its growth with a view to securing monetary stability.[10] The DFS landscape in Pakistan has oversight of the financial sector regulator, SBP, but DFS landscape also involves other policy makers and regulators including the Securities and Exchange Commission of Pakistan (SECP), Ministry of IT & Telecommunications (MoIT) and the Pakistan Telecommunications Authority (PTA). In order to draw clear lines of accountability, SBP has established active collaboration with these regulators, policy bodies and executing agencies (see Exhibit 1). These authorities are an active part of the Working Groups created by SBP under the NFIS.

Exhibit 1: Collaboration of SBP with Relevant Authorities

Under "Improving Access to Financial Services Program"[11], a joint SBP - Ministry of IT & Telecommunications (MoITT) committee was set up for building a framework to promote financial inclusion through technology.	SBP first issued Branchless Banking regulations on 31st March, 2008, based on a "bank-led" model. MoITT issued "Policy Directive to Support Technical Implementation of Mobile Banking including Mobile Money Transfers and Remittances" in 2008 to the Pakistan Telecommunication Authority (PTA), which is the regulator is the telecommunications sector.
Pakistan Telecommunication Authority (PTA), the telecom sector regulator, issues regulations for technical implementation of mobile banking in Pakistan.	PTA and SBP has signed two MoUs on Branchless Banking: The first MoU was signed in January 2012 to develop an appropriate technological & regulatory framework.[12] The second MoU was signed in May 2016 on Regulatory Framework for Mobile Banking Interoperability.[13]
The Securities and Exchange Commission of Pakistan (SECP) issues licenses for capital market services, non-bank finance companies (NBFCs), including microfinance organizations.	SECP and SBP signed a MoU in March 2009 for collaboration, coordination and sharing knowledge in mutual domains.[14]
The National Database and Registration Authority (NADRA), Pakistan's National Identification Authority, provides customer verification services to the branchless banking players and charges a fee on commercial basis.	SBP signed a MoU with NADRA[15] on November 17, 2014 reducing the verification cost to PKR.10 for each m-wallet account opening at industry level, it was implemented in April, 2018 by NADRA.
Competition Commission of Pakistan (CCP) is an independent body to ensure healthy competition between companies for protecting consumers from anti-competitive practices.	The CCP signed an MoU[16] with the SBP in June, 2017 for establishing arrangements between the two institutions for cooperation, collaboration and sharing of information.

SBP is also a signatory of the Maya Declaration, which shows the government's commitment to create and implement regulatory frameworks that balance inclusion, stability and integrity.[17] The Consultative Group to Assist the Poor (CGAP)'s I-SIP study on Pakistan has concluded that regulatory interventions of the SBP in terms of Branchless Banking Regulations has had an overall positive impact on financial inclusion without any tradeoff with the primary objectives of stability, integrity and consumer protection.[18] **Annex 1** contains a complete list of regulations pertaining to branchless banking in Pakistan.

Branchless Banking regulations (BB), promulgated in 2008, allowed for a 'bank-led' model of digital financial services. Following rapid uptake, the State Bank of Pakistan (SBP) revised the BB Regulations in 2011 and again in 2016.[19] In addition, on 9th May, 2019, SBP has mandated biometric verification for Level-I BB account. Level-0 account may be opened without BVS, but during first cash-in or cash-out, BVS would be mandatory. Agents are also prohibited to retain the physical copies of customers' documents. AFIs are also mandated to maintain a risk matrix to assess ML/TF risks yearly and reporting suspicious activities to FMU.

[10] http://www.unescap.org/sites/default/files/Pakistan%20Country%20Paper%20ver%2018032016.pdf
[11] https://www.adb.org/projects/39492-013/main
[12] http://www.sbp.org.pk/press/2012/SBP-PTA-MOU-11-Jan-12.pdf
[13] http://www.pta.gov.pk/index.php?option=com_content&view=article&id=2234%3Alaunch-of-pta-sbp-regulatory-framework-for-m-banking-interoperability-and-signing-mou&catid=92%3Apress-releases&Itemid=87
[14] https://www.secp.gov.pk/document/mou-with-the-state-bank-of-pakistan/?wpdmdl=15921&ind=DQoNCg0KDQoNCg0KDQoNCg0KDQoNCiAgICAgICAgICAgICBNb1Ugd2l0aCB0aGUgU3RhdGUgQmFuayBvZiBQYWtpc3Rhbi5wZGY
[15] http://www.sbp.org.pk/press/2014/SBP-Conf-17-Nov-14.pdf
[16] CCP Press Release dated 13th June, 2017: http://www.cc.gov.pk/index.php?option=com_content&view=article&id=508&Itemid=137&lang=en
[17] https://www.afi-global.org/publications/2359/The-2016-Maya-Declaration-Report Page 46.
[18] CGAP 2014: inclusion, stability, integrity, and protection: observations and lessons for the I-SIP methodology from Pakistan, Table 3 Page 25: https://www.cgap.org/sites/default/files/Working-Paper-I-SIP-Pakistan-June-2014l.pdf
[19] Updated Branchless Banking Regulations 2016: http://www.sbp.org.pk/bprd/2016/C9-Annx-A.pdf .

The Financial Access Task Force (FATF) guidelines consider financial exclusion as a risk and recognize that financial inclusion can contribute to a more effective Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) regime.[20] The FATF Mutual Evaluation Reports are a key indicator in the Basel AML Index, along with other weighted indicators related to corruption, transparency and the rule of law. FATF reports assess a country's legal and institutional AML/CFT framework and its implementation of AML/CFT measures in line with the 40 FATF Recommendations. Pakistan's rankings under Basel AML Index has deteriorated recently.[21] In terms of highest to lowest risk countries in the world, "Basel AML Index 2018 Scores and Rankings"[22], which do not consider financial exclusion as a risk, placed Pakistan at 25th, better than other MFS countries such as Kenya and Tanzania who are ranked 9th and 20th respectively.[23] Pakistan ranked 46th in Basel Index 2017 rankings.

3. POLICY AND REGULATORY BOTTLENECKS

Pakistan ranked 5th in the world for its enabling environment for financial inclusion and rapid growth of mobile financial transactions supported by conducive regulations (Global Microscope 2016). However, recent Global Microscope 2018 ranks Pakistan at 21st out of 55 countries.[24] Deficiencies cited include low specialized regulatory capacity for fostering innovation, lack of incentives for digital technologies, limited supervisory capacity of regulators excluding SBP, and inadequate oversight over informal financial sector. Main highlight was non-existent Data and Privacy laws in Pakistan where Pakistan scored zero marks.

Based on extensive stakeholders' consultations[25], the following issues have been identified as impediments that need to be addressed by all stakeholders to achieve the full potential of DFS in Pakistan. The issues identified will require more in-depth analysis, studies and pilot projects to address these impediments holistically.

1) Know Your Customer Requirements:

In order to extend financial services outreach, SBP has categorized branchless banking accounts into three levels under a risk-based customer due diligence (CDD) approach.[26] For individual customers, 'Level 0' and 'Level 1' branchless banking accounts with relaxed KYC requirements can be opened using a biometric verification system (BVS), linked up to the National Database and Registration Authority (NADRA) database. SBP has also mandated biometric verification for Level-I BB account. Remote account opening for 'Level 0' accounts is also allowed[27], whereby financial institutions are required to first run a pilot for three months before getting approval for final launch. Level-0 account may be opened without BVS, but during first cash-in or cash-out, BVS would be mandatory.

The SBP has recently introduced special branchless banking 'Level 1 Home Remittance Accounts (L1 HRA)'[28] , with the same KYC requirements as Asaan Banking Accounts[29] and without requiring or maintaining paper-based documents. L1-HRA can be opened by a financial institution's permanent employee/staff through BVS by visiting a customer's place of business or residence.

However, 'Level 2' branchless banking accounts, including branchless banking agent and merchant accounts, can only be opened at a bank branch with full KYC, requiring a series of paper-based documents.[30]

A. Requirements of Paper-based Documents for Level-2 BB Accounts:

Building a reliable and extensive CICO agent network is one of the core components of transitioning to a cashless economy. While CICO networks have been a core component of all financial services

[20] http://www.fatf-gafi.org/media/fatf/documents/reports/AML_CFT_Measures_and_Financial_Inclusion_2013.pdf Page 9, 17
[21] https://www.baselgovernance.org/asset-recovery/basel-aml-index/news-and-updates
[22] Basel AML Index 2018 Page No 3
https://www.baselgovernance.org/sites/default/files/2019-02/basel_aml_index_10_09_2018.pdf
[23] In 2015, the Financial Access Task Force (FATF) acknowledged Pakistan's significant progress in improving the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) regime, especially the legal and regulatory framework, to meet its commitments to mitigate strategic deficiencies identified by FATF in June 2010. However, in June 2018, as part of its ongoing review of compliance with the AML/CFT standards, the FATF has recently identified some strategic counter-terrorist financing-related eficiencies and has put Pakistan back on its Grey List.
[24] https://content.centerforfinancialinclusion.org/wp-content/uploads/sites/2/2018/11/EIU_Microscope_2018_PROOF_10.pdf
[25] During the study period (July-September 2017) inputs were solicited and interviews were conducted with the key stakeholders including Regulators (State Bank of Pakistan and Pakistan Telecommunication Authority), Telco-based BB service providers (Telenor Microfinance Bank, Mobilink Microfinance Bank, U Microfinance Bank, Askari Bank-Zong), and Banks (United Bank Limited, Habib Bank Limited, Bank Alfalah and FINCA Microfinance Bank).
[26] Section 4, Branchless Banking Regulations 2016: http://www.sbp.org.pk/bprd/2016/C9-Annx-A.pdf
[27] Page 7 of Branchless Banking Regulations, July 2016..
[28] BB Home Remittances Accounts (HRA) BPRD circular No. 9 of 2017 dated 22-Dec-2017:
http://www.sbp.org.pk/bprd/2017/C9-Annex-A.pdf
[29] Asaan Bank Accounts: http://www.sbp.org.pk/bprd/2015/C11-Guidelines.pdf
[30] Annexure-I, AML/CFT Regulations Page 16: http://www.sbp.org.pk/l_frame/Revised-AML-CFT-Regulations.pdf

ecosystems, the shift to branchless banking has enabled the introduction of the intermediary system of CICO agents in the hope of mitigating the challenge of expanding and maintaining a costly brick and mortar and ATM network, especially in rural locations. DFS providers consider the requirements of physical application forms and paper-based documents for Level-2 Accounts, especially for BB agent onboarding as a key hurdle in the expansion of the CICO agent network. Banks especially, are of the view that digital onboarding of agents without reliance on physical documents should be allowed.

The BB regulation mandates banks to carry out enhanced due diligence for BB agents. SBP's Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Regulations for banks and development finance institutions (DFIs) requires a series of paper-based documents as a full KYC requirement.[31] These include certified copy of "Power of Attorney" or Agency Agreement; National Identity documents such as CNIC, NICOP, Passport; Declaration of proprietorship and Account opening requisition on business letterhead, etc. Furthermore, SBP has issued a "Framework for Branchless Banking Agent Acquisition and Management"[32] outlining minimum requirements for BB Agent Due Diligence (ADD) and risk management. This Framework also mandates financial institutions to ensure that agents are well established, enjoying good reputation and having the confidence of the local people. Compliance is ensured through physical applications and gathering of other physical documents. Banks are required to utilize SBP's online "AgentChex" to sift out black-listed agents and verify their financial health through Pakistan Electronic Credit Information Bureau (e-CIB). Financial institutions are also required to keep an updated information/database of their agents including inactive/blacklisted agents[33].

DFS providers were of the opinion that SBP may facilitate digital onboarding of agents through specific guidelines for acquiring, processing and management of required documents in electronic form. The legal environment in Pakistan already encompasses such provisions: the Electronic Transaction Ordinance 2002 (ETO 2002)[34] legally recognizes and facilitates documents, records, information, communications and transactions in electronic form. ETO 2002 also allows affixation of signatures in electronic form through electronic signatures or advanced electronic signatures. Payment Systems and Electronic Fund Transfers Act, 2007 allows retention of electronic records. Prevention of Electronic Crimes Act 2016[35] (PECA) already covers electronic forgery, fraud and unauthorized use of identity information.

Recommendation

Having the necessary legal and technological environment in place, SBP may provide guidelines for digital onboarding of BB agents. Guidelines may include acquiring, processing and management of documents in electronic form using a digital portal. Use of NADRA "Verisys" through BVS, geo-tagging of the BVS devises at agents' premises and linking e-CIB with the portal would provide an effective ADD mechanism. Furthermore, linking with the SBP's AgentChex system can provide much needed visibility on geographical distribution of agents. In order to test this functionality, a pilot project may be initiated in collaboration with the industry. An industry-wide adoption of a digital portal for BB agents will not only increase the efficiency of the onboarding process but will also enable SBP to link this facility with AgentChex for effective oversight of BB agent networks and geographical distribution of agents.

B. Risk-based KYC/CDD requirements of Agents and Merchants:

Under the risk-based CDD approach there are provisions for individuals to open three different levels of branchless banking accounts having distinct KYC requirements. Agents and merchants however, are clubbed together in only one level i.e. 'Level 2' branchless banking accounts with full KYC.

One-size fits all regulations may not be effective for either basic or advanced level of services offered by agents. An agent providing basic BB services should not be subject to the same KYC requirement as an agent providing the full range of BB services. Similarly, several types and levels of merchants are present in the market offering goods and services and would require tiered risk-based KYC requirements.

Although SBP has issued a 'Framework for Branchless Banking Agent Acquisition and Management'[36] to effectively manage risks associated with agent banking, and is in the process of doing the same for merchants, tiered KYC requirements for onboarding agents and merchants needs to be explored in light

[31] Annexure-I, AML/CFT Regulations Page 16: http://www.sbp.org.pk/l_frame/Revised-AML-CFT-Regulations.pdf
[32] SBP BPRD Circular No. 06 of 2016: http://www.sbp.org.pk/bprd/2016/C6-Annx-A.pdf
[33] Section 9.1 "Framework for Branchless Banking Agent Acquisition and Management": http://www.sbp.org.pk/bprd/2016/C6-Annx-A.pdf
[34] Clauses 3-7 of Electronic Transaction Ordinance 2002 (ETO 2002) http://www.sbp.org.pk/about/act/ETC202.pdf
[35] Clauses 12 – 16 of PECA 2016 http://www.na.gov.pk/uploads/documents/1472635250_246.pdf
[36] http://www.sbp.org.pk/bprd/2016/C6.htm

of experiences in other countries such as Kenya, India, the Democratic Republic of Congo (DRC) and others. In addition, some countries like Mali and Chad have also utilized data analytics to supplement their digital agent onboarding systems.

Recommendation

The introduction of risk-based tiered due diligence requirements for agents and merchants should be explored to extend outreach and uptake of branchless banking services. In this regard, focused research documenting international experiences should be conducted to recommend proportionate frameworks for agents and merchants in Pakistan. The supplementary role of data analytics and geo-spatial mapping tools should also be included in the study. Specific risks related to different types of branchless banking merchants and business models including use of third party aggregators[37] also need to be evaluated to formulate proportionate regulations.

C. NADRA Identity Verification Services:

DFS providers are of the view that fees for the mandatory NADRA identity verification services (Verisys)[38] should be zero or cost based, as the current fee ranging from PKR 2 to PKR 45 (USD 0.34) adds significantly to costs which are ultimately passed on to the consumer.[39] SBP signed an MoU with NADRA to reduce the account opening verification fee from PKR 45 to PKR 10, however, its implementation was delayed till April, 2018 by NADRA. For Telecom Operators, charges still remain at Rs. 23 for every new subscriber. NADRA has also introduced tiered pricing (PKR 6, 4 and 2) for recurring over-the-counter (OTC) financial transactions based on the volume of transactions. Smaller DFS players view the tiered pricing as discriminatory, as the fee goes down to PKR 2 for those transactions only which exceed the volume of 3 million per month.

During customer onboarding, NADRA provides limited fields of customer data through Verisys. Market players reported that a utility with additional fields was tested by NADRA, however its deployment is still awaited. Moreover, NADRA is providing data in Urdu and its English translation, arranged for separately by each provider, is prone to errors. Financial institutions are of the view that NADRA should provide the data in English so that it can be stored accurately and on real time basis. This will also help to increase confidentiality of data by avoiding use of third parties for translation.

Recommendation

Implementation of reduction in NADRA fees would provide a level playing field for smaller DFS players and also result in reduced cost for the consumer. Zero rated or cost-based verification fees need to be considered as a priority to achieve financial inclusion goals of NFIS, for which NADRA is an important stakeholder. In order to avoid errors and violation of confidentiality and privacy issues, NADRA should also consider providing data in English so that it can be stored accurately and on real time basis.

D. Balance and Transaction Limits:

Market players consider that balance and transaction limits for branchless banking accounts and OTC transactions can now be enhanced as the risk has substantially decreased after the enforcement of BVS requirements. Especially, limits can be increased for OTC transactions through Inter-Bank Fund Transfers (IBFT) since all transaction are biometrically initiated and at the receiving end there is a proper bank account. SBP was of the view that limits for branchless banking accounts were introduced in consultation with the market, however, simplified KYC regime of '*Asaan Accounts*'[40] can be implemented to increase these limits. This would require filing one pager paper-based or electronic Account Opening Form with basic customer information including occupation, source of income, purpose of account, specimen signature, expected transaction turnover, next of kin, etc. SBP has recently issued guidelines for "Asaan Remittance Accounts" for all banks, including MFBs, on the pattern of "Asaan Accounts".

[37] https://www.gsma.com/mobilefordevelopment/programme/mobile-money/kopo-kopo
[38] https://www.nadra.gov.pk/verisys-2/
[39] 1USD = 111 Pak Rupees (Rs.)
[40] Transaction limit for Asaan Accounts is 500,000/month: http://www.sbp.org.pk/bprd/2015/C11-Guidelines.pdf

Recommendation

After implementation of the BVS regime, fund transfer limits can be increased for BB accounts. Consultation with the industry may be initiated by SBP to review the limits.

E. Centralized Validation Utility:

In Pakistan, branchless banking players have different levels of access to prospective customers' information for due diligence. Current regulations allow remote account opening for "Level 0" customers[41], however, non-telco based BB players cannot avail this opportunity in the absence of access to a centralized validation service. Telco-based BB players also have certain limitations for verifying and ensuring sustained ownership of the SIM cards of competing telcos' customers. BB players are of the view that a functionality therefore needs to be put in place to resolve this limitation. This will not only provide functionality for compliance but will also help in the prevention of fraudulent BB activities through exchange of timely information between BB players, resulting in enhanced consumer trust in the long-term.

Market players can meet their compliance needs by sharing KYC related data with each other. Currently, the Mobile Number Portability Database (MPD) has useful customer data but it is only accessible to telcos. NADRA's CNIC and identification data is the primary source of verification in Pakistan and is accessible to all players on commercial terms. Yet another source is the e-CIB and four private credit bureaus, which also have useful collated credit data, but only on the borrowers of financial institutions. Data/history related to Utility bill payments is another repository which will add value in the KYC Utility.

SECP's "Centralized Know Your Customer (KYC) Organizations Rules, 2017"[42], provides for a centralized validation utility such as a KYC Utility[43]. The centralized facility can be used to integrate data from multiple sources, allowing for lower CDD costs for all players. The commercial viability of a new centralized solution and its added cost for the consumer would require further analysis.

Recommendation

Implementation of a functionality such as "KYC Utility" can be explored under the umbrella of SBP, which may facilitate the onboarding of customers and agents. The central repository of KYC related data can be leveraged by all participants for their own customer due diligence of potential customers. Ultimate responsibility of customer due diligence would still lie with the financial institution.

2) Measures to increase uptake of BB services:

Although the volume and value of basic branchless banking transactions are improving, the number of active branchless banking agents is stagnant, the use of BB digital accounts is dormant and product offerings remain limited. Availability of active agents is a key component of a BB ecosystem. As of September, 2017, only 181,377 agents were active out of 420,107 total number of agents. Number of agents reached to 425,199 in Dec 2018 (405,571 in June 2018); data for active agents is not available.

Similarly, merchants accepting BB payments are negligible due to which active use of BB accounts is still dormant. For individual account holders, facilitation of the first deposit and transaction is the most import aspect for subsequent use. Women account for 48 percent of the population in Pakistan, however female BB accounts are just 20.8 percent of the total. Greater emphasis is therefore required to facilitate the financial inclusion of women. In view of the above, the following measures were proposed by industry experts to extend the outreach and uptake of BB services in Pakistan.

A. Roaming Agents:

For the ongoing monitoring and supervision of agents, regulations mandate financial institutions to ensure that agents do not perform BB related services at a location other than the one mentioned in their service level agreements (SLAs). 'Roaming agents' are only allowed in case of a calamity, disaster and Government to Person (G2P) payments.[44]

[41] Page 7 of Branchless Banking Regulations, July 2016
[42] https://www.secp.gov.pk/document/sro-298-i2017-kyc-organization-rules-2017/
[43] PWC: Share and share alike: Meeting compliance needs together with a KYC utility, December 2015 https://www.pwc.com/us/en/financial-services/publications/know-your-customer.html
[44] Section 9.10 (a) of framework for BB Agent Acquisition and management

A number of interviewees were of the pinion that this provision has restricted the utilization of innovative alternate delivery channels (ADCs), such as captains of ride-hailing services, as agents or merchants in normal circumstances. It is believed that since users and providers of such services are already familiar with technology-based solutions, they would present a greater probability for adopting and utilizing digital accounts. Moreover, if roaming agents are allowed, Pakistan Post can utilize its large number of postmen as BB agents to extend greater outreach to unserved and underserved rural areas. Postmen, being government employees, pose a lower risk of fraud and can be on-boarded as agents within a fairly short time period. Given the widespread network of postal services, roaming agents would also be helpful in mitigating some of the access barriers for women.

Recommendation

After satisfying all KYC requirements, 'Roaming Agents' may be allowed in normal circumstances as well. Innovative alternate delivery channels (ADCs) can then be utilized as agents or merchants. Roaming agents would be helpful in addressing the mobility and social interaction limitations faced by women—one of the major bottlenecks in access to financial services. This allowance would also enable use of more than 12,000 postmen of Pakistan Post as BB agents.

B. Offerings of BB Services Digitally:

Currently, a limited number of use cases are being offered through DFS due to which value offered to the customers is limited. Innovative business models for BB financial services, such as small value savings, microcredit, micro-insurance, micro-investments, crowdfunding and peer-to-peer lending struggle to implement traditional regulations, requiring physical documents. Digital-KYC would play an important role in digitalization of the entire value chain. Inherent risks involved in offering such services digitally also need to be evaluated in detail to develop guidelines to safeguard consumers, especially to cater for orality issues, lack of awareness and financial capabilities of the poor to ensure against largescale defaults.

As more and more services are offered digitally, the infrastructure and consumers' financial data will be prone to new types of risks, for which financial institutions may not be fully prepared. SBP's "Enterprise Technology Governance & Risk Management Framework for Financial Institutions" broadly mentions creation of Board IT Committees for the formulation of technology policy frameworks for financial institutions, including BB networks, covering Information/Cyber Security and Business Continuity and Disaster Recovery. Going forward, comprehensive Data Protection, Information Privacy and Cyber Security guidelines will be required in this regard. Global Microscope 2018 rankings especially highlighted non-existent Data and Privacy laws in Pakistan where Pakistan scored zero marks. In the absence of these overarching laws, SBP would require to provide Financial sector guidelines.

Recommendation

Regulations need to enable offering of a broad range of innovative BB services like peer-to-peer lending, small value savings, microcredit, micro-insurance, micro-investments, crowd-funding and peer-to-peer lending through digital means. Orality issues and other inherent risks involved also needs to be evaluated to develop proportional guidelines to safeguard consumers. In the absence of overarching Data Protection and cybersecurity laws, SBP would require to provide Financial sector guidelines.

C. Enabling Regulations for Innovation:

The absence of adequate enabling regulations for Fintechs and technology-enabled financial interventions may expose technology companies (Fintechs) and established financial institutions to regulatory and reputational risks.

In order to provide regulatory certainty and encourage innovation by a variety of existing and potential DFS providers, SBP may implement a 'Regulatory Sandbox'[46] approach. In countries such as the United Kingdom and Germany, regulatory sandboxes have enabled financial regulators to balance innovation and associated risks to positively impact financial inclusion while accelerating the shift to a cashless economy. This may include the introduction of a private sector driven technical Sandbox test environment to facilitate Fintechs' access to a variety of open APIs essential to develop, test and scale a new concept or product; regulatory advice by SBP during inception and development phase; and use of

[45] Page 10 & 11 of the Framework http://www.sbp.org.pk/bprd/2017/C5-Annex.pdf
[46] Regulatory Sandbox: https://www.karandaaz.com.pk/blog/regulatory-sandbox-need-hour-pakistan/

industry experts as gatekeepers to the Regulatory Sandbox. Moreover, visibility and oversight over emerging products and services in a live test environment would enable SBP to formulate proportionate regulations, if required.

Globally, open banking interventions are underway to fully utilize technical resources (mandatory open APIs in EU through PSD2[47] etc.) through innovative offerings of third parties. In order to spur innovation, enabling regulations would be required to facilitate partnerships and collaborations between established financial institutions and Fintechs. In Pakistan, established financial institutions have started to offer limited API access to Fintechs.[48] However, financial institutions are wary that a shallow local Fintech sector may result in few such initiatives, if any.

The dilemma for small scale Fintechs in Pakistan is that there is no special provision for them to provide financial services without obtaining a full-fledged license. Recent Electronic Money Institutions (EMI) regulations also lacks small Fintech related provisions. Established financial players would require authorization and/or the verbal understanding of the regulator to work with these Fintechs. Due to this regulatory gap influential stakeholders have an advantage in launching their products commercially. By defining a minimum threshold in terms of the requirement for obtaining a license, a level playing field for smaller Fintechs and other players could be provided through a separate licensing category for Fintechs with limited regulatory requirements[49].

The possibility of developing in the wake of technological advancements and increased frequency of innovative solutions, capacity building of regulators would also be required to develop the enabling environment to balance innovation and its associated risks.

Recommendation

Enabling provisions for open banking could provide access to critical resources such as APIs to technology firms (Fintechs) and smaller, more innovative players to enter the financial services domain (FinTS in Germany[50]). A separate licensing category for Fintechs with limited regulatory requirements may be explored to formalize the process and enable a range of players to enter the DFS space (Swiss FINMA[51]). SBP may also explore the option of establishing a 'Regulatory Sandbox' through a public private partnerships (PPP) arrangement or by itself.

D. Interoperability:

Interoperability[52] is considered to be a vital requirement to achieve financial inclusion through DFS.[53] Telecommunications networks, ATMs and POS devices are example of how interoperability can increase usability and uptake through network effect. Interoperability may encourage market players to compete on quality and diversification of product offerings. BB regulations in Pakistan have provided space for market players to grow without mandatory interoperability, however, limited interoperability may lead to negative effects on overall market efficiency and outreach.

Currently, all BB players are technically interoperable with other banks through the 1-Link switch, however, certain FIs have not enabled transactions for some financial institutions, as one-to-one interoperability is still not mandatory. SBP and PTA have introduced the Regulatory Framework for Mobile Banking Interoperability through SBP's "Regulations for Mobile Banking Interoperability"[54] and PTA's "Regulations for Technical Implementation of Mobile Banking"[55]. Under this arrangement, the Third-Party Service Providers (TPSP) licenses are issued by PTA and authorized by SBP for USSD interoperability purposes within the branchless banking domain.

[47] Payment services (PSD 2) - Directive (EU) 2015/2366:
https://ec.europa.eu/info/law/payment-services-psd-2-directive-eu-2015-2366_en .
[48] i) https://karandaaz.com.pk/media-center/news-events/mobile-industry-players-unite-to-host-the-mobile-money-hackathon-in-karachi/
ii) https://propakistani.pk/2017/04/25/telenor-pakistan-opens-apis-developers/
iii) https://propakistani.pk/2017/11/28/hbl-launches-open-payments-api-pakistan/
[49] https://www.finma.ch/en/authorisation/fintech/
[50] https://www.hbci-zka.de/english/
[51] https://www.finma.ch/en/authorisation/fintech/
[52] According to the ITU Digital Financial Services Focus Group's glossary, interoperability is "the ability to exchange payments transactions between and among providers. This can be done by providers participating in a SCHEME or by a variety of bilateral or multilateral arrangements". "When payment systems are interoperable, they allow two or more proprietary platforms or even different products to interact seamlessly"
[53] https://www.itu.int/en/ITU-T/focusgroups/dfs/Documents/201702/ITU_FGDFS_Report-Right-Timing-for-Inducing-Interoperability.pdf
[54]http://sbp.org.pk/bprd/2016/C3-Annx-A.pdf
[55]http://www.pta.gov.pk/media/MBanking1652016.pdf

A unified USSD platform through a TPSP is the main requirement for successful implementation of the Asaan Mobile Accounts (AMA) scheme approved by the NFIS steering committee. SBP and PTA has recently made it obligatory for FIs and Telcom operators to connect with any TPSP for many-to many USSD interoperability, however, one-to-one interoperability is still not mandatory.

Moreover, due to the high fees involved in IBFT even at the time of cash-in, small-size transactions are not viable[56] and that seriously hinders the uptake of small value large volume digital transactions. The NFIS acknowledges that key gaps in the National Payments System (NPS) impact the development and usage of DFS in Pakistan. To bridge this gap, SBP has initiated work on a National Payment Gateway (NPG) which will incorporate a core switch for general interoperability along with a Micro Payment Gateway (MPG) for m-wallet interoperability.

Smaller BB players also consider that agent interoperability is the way forward for expanding the market. They are also wary of the high cost of establishing and managing an agent network. On the other hand, established telco-based BB players are of the view that mandatory agent interoperability, in the wake of BVS implementation, would erode any incentive for further expansion of the agent network. Moreover, they fear that interoperability would take away the business opportunity as all players will be at par without having to invest. Pakistan's agent network has the highest rate of non-exclusivity; 78 percent of agents serve multiple DFS providers. 77 percent of active agents and 85 percent of active BB accounts belong to the top two telco-based BB players accounting for 86 percent of the volume and 82 percent of value of transactions.[57]

Use of third party shared agent networks may provide an efficient mechanism to extend access of BB services. SBP will need to review the situation to assess whether access to critical resources has started to impede competition and has become a barrier to the expansion of the BB market. In either way, consultations with market players needs to be initiated to take into account implications of mandatory interoperability, if any, with respect to ownership/responsibility of the agent liquidity and other related issues.

Recommendation

Mandatory one-to-one interoperability have the potential to create a network effect through the increased usability of services, however, a comprehensive review would be required to assess the current market dynamics to decide on the timing of such an intervention.

E. Agent Training:

Agent training is pivotal for the smooth and efficient working of the BB market. Financial institutions are obligated to develop and enforce a comprehensive training and development program for agents including KYC and account opening, product offerings, managing inherent risks and customer services.[58] Over the last decade franchisers and retailers of mobile network operators (MNOs) experienced a natural evolution to become super agents and agents of BB services. As DFS providers have gone beyond their traditional pool of agent to on-board new individuals, BB players are finding it difficult to train new agents, resulting in an increased number of inactive agents. As of September, 2017, only 181,377 agents were active out of a total of 420,107 agents. Around 72 percent of the active agents belong to telco-based BB players.

Currently, the majority of active agents in Pakistan provide basic BB services such as cash-in, cash out and P2P money transfer. Agent training will improve the capabilities of the agents to open customers' accounts with proper due diligence and then offering advanced products and services.

While agents can be trained online through videos or live sessions, BB players have continued to rely on face-to-face training delivered by their sales teams and at social gatherings. This has resulted in limited outreach and a very labor intensive model. The recent Agent Network Accelerator (ANA) survey for Pakistan[59] found that only 49 percent of the agents received training in the first three months after being on-boarded. The survey also found that agent training results in more transactions and revenue for BB agents.

[56] CGAP: Digital Finance Interoperability & Financial Inclusion (Pablo Garcia Arabehety, Gregory Chen, William Cook, and Claudia McKay), Page 8: http://www.cgap.org/sites/default/files/interoperability.pdf
[57] SBP Branchless Banking Newsletter Jan-Mar 2017. http://www.sbp.org.pk/psd/2016/C5_Annex.pdf
[58] Section 9.4 (b) of framework for BB Agent Acquisition and management http://www.sbp.org.pk/bprd/2016/C6-Annx-A.pdf
[59] https://www.karandaaz.com.pk/wp-content/uploads/2017/09/170921_ANA-Pakistan_Web_FINAL.pdf

Recommendation

Imparting training to a BB agent is crucial for DFS providers as it improves the capabilities of the agents to open customers' accounts with proper due diligence and then offering advanced products and services. Results from the ANA survey indicates a positive correlation between training and the number of transactions and amount of revenue accounted for by a BB agent. DFS providers need to ensure training of their agents, while also exploring more innovative ways of delivering that training.

F. Uniform Implementation of Regulations:

Financial institutions are ultimately responsible for monitoring and supervising the activities of BB agents through a well-defined compliance mechanism. However, uniform implementation of regulations for the similar type of services remains a challenge on ground due to different compliance cultures present at commercial banks and telco-based branchless banking providers. During the interviews, it was observed that some financial institutions are finding it difficult to implement some regulations due to lack of understanding, practical limitations and current compliance norms of the branchless banking market.

Recommendation

Frequent dialogues between the regulator and industry players needs to be formalized to achieve consistency of implementation of regulations. Review is also required to assess practicality of some regulations and compliance practices on ground to provide a level playing field for all market players.

G. Financial Literacy:

Financial literacy is directly linked with consumer protection, informed choices and trust in branchless banking services. Under 'Improving Access to Financial Services Program' a nationwide Financial Literacy Program (NFLP)[60] was launched by SBP. Under NFIS, a financial literacy program has also been initiated by SBP. More recently, SBP has mandated all financial institutions to disseminate information material to consumers on 'Know Your Rights and Responsibilities as a Bank's Consumer' and 'Protecting your Payment Cards'.[61]

BB market players also focus on financial literacy of the consumer to promote uptake of services; however, they are of the view that an initiative to promote and educate consumers at a mass level is required in collaboration with all stakeholders. The role of agents can also be instrumental for promoting financial literacy and capability initiatives, however, the perception of losing business by empowering consumers might hinder the positive role of agents in this regard. The ANA survey revealed that only 20 percent of agents educate their customers on mobile wallets. Those agents who educate their customers conduct 50 percent more transactions as compared to others.

Recommendation

Financial literacy is directly linked with trust, consumer protection, informed choices and increased demand for relevant services. SBP should take the lead in developing a countrywide awareness and financial literacy program in collaboration with all stakeholders to cater to the demand side of the BB ecosystem in Pakistan. Such initiatives conducted during an official national drive on financial inclusion, or a national financial inclusion week or month under the umbrella of the Government of Pakistan might ensure greater collaboration as well as annual visibility. BB service providers may also explore incentive structures for co-opting BB agents as partners in the financial literacy and awareness raising efforts.

[60] http://www.financial-education.org/Pakistan_Nationwide_Financial_Literacy_Program.html
[61] BC&CPD Circular No. 01 of 2017: http://www.sbp.org.pk/cpd/2017/C1.htm

3) Focused Policy and Initiatives for Financial Inclusion of Women:

48 percent of the population in Pakistan, yet only 7 percent of adult women have a registered financial services account.[62] Under the NFIS 2015, the Pakistan had set a target of 25 percent financial inclusion of adult women by 2020. Recently, the target has been revised to 20 million female accounts by 2023.

It is widely believed that the NFIS goals can only be achieved by applying a deliberate gender lens to existing and new policies. This becomes all the more important given the fact that there is a 42 percent gender gap in mobile phone ownership and 30 percent of females do not even have access to somebody else's mobile phone.[63] According to the Alliance for Financial Inclusion (AFI), "the persistent gender gap in financial inclusion shows that mainstreaming gender may not be enough to address structural inequalities to advance women's financial inclusion. Instead a more proactive and tailored policy response which considers the unique needs and behaviors of women will also be required."

As such, a road map included in the NFIS Activity Plan for the financial inclusion of women will be a powerful and effective policy measure. The NFIS has segregated targets for the financial inclusion of women, calls for the collection and reporting of gender-disaggregated data and demand side surveys to identify barriers that women face. Additionally, it will be useful to establish a separate Technical Committee on Gender, as envisioned for the proposed governance structure of the NFIS, rather than making it a cross-cutting thematic focus for the other committees. The committee can then pursue deliberate and focused initiatives such as identifying gender-blind policies with implications for financial inclusion, reviewing incentives for on-boarding of women clients, and mandating the collection and reporting of gender disaggregated data with regard to geography, age, and uptake of financial products and services.

Alliance for Financial Inclusion's (AFI) Guideline Note on 'Integrating Gender and Women's Financial Inclusion into National Strategies' and 'Policy Frameworks to Support Women's Financial Inclusion' identify the following top three barriers to women's financial inclusion: financial literacy (75%), collateral requirements (66%), and the socio-cultural environment (63%). The note also includes specific case studies on the financial inclusion of women, which hold relevance for Pakistan.[64]

Introducing financial literacy subjects for young girls at school and college levels has the potential to enhance capabilities of women to manage their financial needs. In addition, an all-male agent network in Pakistan is a cultural barrier for women to access BB services. Only two female agents were recorded out of more than 2,000 agents interviewed during the 2017 ANA survey for Pakistan. Around 20 percent of the agents reported having no women customers. A gender balanced agent network, with at least some women agents, could go a long way in facilitating the onboarding of female clients and encouraging uptake of BB services by women. Moreover, use of roaming agents / female facilitators in line with lady health workers may can also be considered to address the mobility barrier of women.

Recommendation

Bridging the gender gap in access to financial services requires a deliberate focus at the highest policy and regulatory levels. As originally envisioned in the NFIS, a separate working group on gender should be established, to review policies from a gender perspective while also including a gender-focused action plan for inclusion in the NFIS. The working group should mandate all national data collection efforts on financial inclusion to measure individual (rather than household) access and inclusion to ensure collection of gender disaggregated data to enable data-backed policy formulation.
Introducing financial literacy subjects for young girls at school and college levels has the potential to enhance capabilities of women to manage their financial needs. Onboarding of female agents needs to be encouraged, or even obligated to cater for social interaction limitations. Allowing roaming agents may also enable provision of BB services at the doorstep to address mobility constraints.

4) Biometric Verification for OTC Transactions:

Since July 2017, biometric verification of senders and receivers has been made mandatory for all person-to-person OTC transactions. While the initiative has resolved some major transparency and AML/CFT related compliance issues prevalent in the BB market, the recurring verification fee has increased the cost for consumers. Initially DFS providers struggled with supplying BVS devices to their agent networks and providing required training, OTC transactions showed a declining trend (see **Exhibit 2**).

[62] InterMedia Pakistan FII Tracker Survey September-October 2016, Page # 17:
http://finclusion.org/uploads/file/Pakistan%20Wave%204%20Report%19-July-2017.pdf
[63] National Financial Inclusion Strategy Pakistan: Executive Summary page vii
http://www.sbp.org.pk/ACMFD/National-Financial-Inclusion-Strategy-Pakistan.pdf
[64] https://www.afi-global.org/sites/default/files/publications/2017-03/GuidelineNote-27%20FIS-Gender%20and%20FIS.pdf
https://www.afi-global.org/sites/default/files/publications/2016-08/2016-02-womenfi.1_0.pdf

Exhibit 2: OTC Transaction (Volume, Value) and Agents (Total and Active)[65]			
	Apr-Jun 2017	July-Sep 2017	Oct-Dec 2017
Vol. of OTC transactions (% of total BB transactions)	67.3 million (41.6%)	54.7 million (34.3%)	49.9 million (29%)
Value of OTC transactions (% of total BB transactions)	245.1 billion (51.7%)	198.2 billion (44.6%)	171.0 billion (35%)
Vol of P2P sending	12.5 million	7.6 million	7.3 million
Value of P2P sending	62.1 billion	43.3 billion	49.8 billion
Vol of P2P receiving	13.35 million	8 million	6.5 million
Value of P2P receiving	64.4 billion	43.5 billion	43.1 billion
Total # of Agents	402,710	420,107	405,673
Active Agents	185,297	181,377	192,741

While all stakeholders recognize the importance of the measure, market players did however raise the following challenges:

- Use of exclusive BVS devices of competitors at the same location is not an efficient use of resources, especially given that approximately 60 percent of agents are shared by at least two players.
- Small BB players are of the view that high capital (PKR 20,000 per device) and operational costs of BVS compliance have become a barrier to establishing agent networks, which has the potential to reduce competition in the market.
- Around 99 percent[66] BB agents offer OTC services, which are now heavily dependent on un-interrupted NADRA services. Ensuring uninterrupted service is critical and some stakeholders were of the view that alternative options may be explored in case of unavailability of NADRA services.
- Standard Operating Procedures (SOP's) need to be devised to cater to individuals with special needs. These include amputees, whose fingerprints cannot be verified. Market players also identify individuals involved in manual labor and of old age, whose fingerprints are difficult or impossible to verify and cannot be scanned.
- High BVS rejection rate was also cited as an issue. BB players point to inefficiencies in the verification process, however, NADRA blames this on the deployment of low-quality BVS devices. The Pakistan Telecommunication Authority (PTA) has since emphasized the need to deploy PTA type-approved devices to ensure compatibility with the system. Industry players are of the view the limited technical standards of the devices need to be ensured to balance out verification needs and capital outlay.
- NADRA's tiered pricing for recurring OTC transactions (PKR 6, 4 and 2) is discriminatory for small players, as the fee goes down to PKR 2/- for those transactions only which exceed the volume of 3 million/month.
- Currently, saving consumers' finger print data by BB players for subsequent use for verification purposes is not allowed. There are certain concerns on possible mishandling/improper use of such data, in the absence of clear guidelines.

Recommendation

Mandatory BVS for OTC transactions has provided an effective mechanism to enforce AML/CFT compliance. However, above mentioned practical issues needs attention.

5) Transition Towards Digital Transactions:

Pakistan has joined the United Nations' Better Than Cash Alliance (BTCA), a global partnership of governments, companies and international organizations with the aim to catalyze the transition to cashless economies.[67] It is estimated that around 60 percent of Pakistan's economy is informal, with the majority of local companies, particularly small and medium enterprises (SMEs) being undocumented.[68] More than 90 percent of retail transactions are still cash based. The use of DFS for retail and e-commerce transactions has significant potential to increase documentation of the economy. The NFIS has a special focus on shifting large payment schemes, including Government-to-Person (G2P) payments (social cash transfers, wages in the public and private sector; pensions), and Person-to-Government (P2G) payments (fees and taxes) from cash to digital platforms.

[65] State Bank of Pakistan. Branchless Banking Quarterly Newsletter. Apr-June 2017; July-Sep 2017; Oct-Dec 2017
[66] ANA Survey 2017 Page#17 https://karandaaz.com.pk/karandaaz-publication/page/2/#
[67] https://www.betterthancash.org/news/media-releases/pakistan-plans-to-bring-millions-more-citizens-into-the-economy-by-digitizing-payments
[68] https://www.export.gov/article?id=Pakistan-eCommerce

While financial market players agree with the need to digitize payments, they are of the view that transition from cash to digital transaction needs to be incentivized. Taxation is considered as a major hurdle for the expansion and viability of DFS access networks including merchants and agents. Almost all BB agents are non-dedicated, meaning they are not solely dependent on their BB business. Therefore, decrease in profit margins simply erode any incentives for agents to take on BB services.

Recommendation

Transition of cash-based transactions to digital transactions would result in expansion of documented economy. Taxation does not pertain to SBP; however, impact of taxes needs to be assessed to design government's initiatives to incentivize conversion of cash-based transactions to the Digital transactions.

Annex 1: Branchless Banking related Regulations in Pakistan

Branchless Banking related Regulations in Pakistan			
Sr. No.	Regulations	Year (latest till date)	Link
1	SBP BPRD Circular No. 09: Branchless Banking Regulations for Financial Institutions	July 12, 2016	http://www.sbp.org.pk/bprd/2016/C9.htm
2	SBP BPRD Circular No. 06: Framework for Branchless Banking Agent Acquisition and Management	June 21, 2016	http://www.sbp.org.pk/bprd/2016/C6.htm
3	SBP Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Regulations for Banks & DFIs	Updated up to November 14, 2017	http://www.sbp.org.pk/bprd/2017/CL29-Annex.pdf
4	SBP BPRD Circular No. 03: Regulations for Mobile Banking Interoperability	May 16, 2016	http://www.sbp.org.pk/bprd/2016/C3.htm
5	PTA's Regulations for Technical Implementation of Mobile Banking	March 8th, 2016	http://www.pta.gov.pk/media/MBanking1652016.pdf
6	BPRD Circular Letter No. 32: Asaan Remittance Account	December 06, 2017	http://www.sbp.org.pk/bprd/2017/CL32.htm
7	BPRD Circular No. 09: Branchless Banking Regulations for promotion of Home Remittances	December 22, 2017	http://www.sbp.org.pk/bprd/2017/C9.htm
8	BPRD Circular No. 11: Guidelines on Low Risk Bank Accounts with Simplified Due Diligence - Asaan Account	June 22, 2015	http://www.sbp.org.pk/bprd/2015/C11.htm
9	SP BPRD Circular No. 07: Prevention against Cyber Attacks	June 22, 2016	http://www.sbp.org.pk/bprd/2016/C7.htm
10	PSD Circular No. 05: Regulations for Payment Card Security	June 10, 2016	http://www.sbp.org.pk/psd/2016/C5.htm
11	PSD Circular No. 03 of 2018: ELECTRONIC FUND TRANSFERS REGULATIONS	May 09, 2018	http://www.sbp.org.pk/psd/2018/C3.htm
12	PSD Circular No. 09 of 2018: Security of Digital Payments (PSD Circular Letter No. 01 (amendments)	November 28, 2018	http://www.sbp.org.pk/psd/2018/C9.htm
13	PSD Circular No. 01 of 2019: Regulations for Electronic Money Institutions	April 01, 2019	http://www.sbp.org.pk/psd/2019/C1.htm

Annex 2: Acronyms

ADC	Alternative delivery channel
AMA	Asaan mobile account
AML	Anti-money laundering
API	Application program interface
BB	Branchless banking
BTCA	Better Than Cash Alliance
CDD	Customer due diligence
CFT	Combating the financing of terrorism
CICO	Cash-in and cash-out
DFS	Digital financial services
DTA	Digital transaction account
FATF	Financial Access Task Force
G2P	Government to person
IBAN	International Bank Account Number
KYC	Know your customer
MNO	Mobile network operators
MPG	Micro Payment Gateway
NFIS	National Financial Inclusion Strategy
OTC	Over the counter
PTA	Pakistan Telecommunication Authority
SBP	State Bank of Pakistan
TPSP	Third Party Service Provider
USSD	Unstructured Supplementary Service Data

About Karandaaz

KARANDAAZ PAKISTAN, a not-for-profit company established in August 2014, promotes access to finance for small and medium businesses through a commercially directed investment platform and financial inclusion for individuals by employing technology enabled digital solutions. The company has financial and institutional support from leading international development institutions, principally the United Kingdom's Department for International Development (DFID) and the Bill & Melinda Gates Foundation.

Karandaaz Digital

Focuses on expanding the poor's access to digital financial services in Pakistan by working across the ecosystem with all stakeholders.

Karandaaz Capital

Provides wholesale structured credit and equity-linked direct capital investments to micro, small and mid-size enterprises (MSMEs) that demonstrate compelling prospects for sustainable business growth and employment generation in Pakistan.

Karandaaz Innovation

Manages the Innovation Challenge Fund and Women Entrepreneurship Challenge, providing risk capital and grants to partners with the aim to generate innovative solutions in areas of financial inclusion and entrepreneurship.

Knowledge Management and Communications

Supports the company's core financial inclusion goal by developing and disseminating evidence based insights and solutions.

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