LANDSCAPE OF MERCHANT PAYMENTS
PAKISTAN
Agenda

01 Project Background
02 Methodology
03 Executive Summary
04 Detailed Findings - DFS
05 Cash as a Payment Mode
06 DFS Concept Testing
07 Category Drivers and Image Perception
PROJECT BACKGROUND
Objective & Design of the Study

Merchant payments in Pakistan is identified by all stakeholders as a key payment use-case that is being used by almost every segment of the population and is currently believed to be based on cash transactions only.

The current dynamics of the merchant payments landscape remains largely unknown with respect to factual information. There are multiple views and opinions that explain the slow growth of digital retail payments in Pakistan but there is no publicly available research work that can support any particular argument of stakeholders.

In order to comprehend the merchant payments space better, Karandaaz commissioned a comprehensive study to understand the existing merchant payments landscape of Pakistan.

To understand the merchant payments landscape in its entirety, a two pronged approach was adopted and the study was conducted in 2 phases:

1. Qualitative In-depth Interviews with merchants
2. Quantitative face-to-face interviews with merchants
Two-pronged Approach...

• 59 in-depth interviews were conducted with different types of merchants to understand their pain points with respect to cash and to ascertain their acceptance of Digital Payments solutions

• IDI’s were also conducted with key stakeholders including FBR, SBP, the Acquirers, Issuers and the Telcos, etc. to comprehend their viewpoint

• A nationwide sample of n=3000 was achieved to validate and quantify the findings of the Qualitative leg

• A segmentation exercise was also run in the quantitative phase to segment the merchants on the basis of their Profile & Type and to see their current practices and methods of access to finance within these
Phase – 1

Qualitative Phase
- IDIs with Merchants
- IDIs with Stakeholders

Quantitative Phase
- Validating Qualitative Segmentation
IDI’s with Merchants

IDI’s were conducted with different merchant types as per the below sample split. The sample included merchants who are not using digital payment methods currently as well as merchants who are using POS or other digital payment methods.

A smaller sample was also allocated to cover online merchants.

- WITH POS / OTHER DIGITAL PAYMENTS
  - IDI’s were conducted with the following categories:
    - General Store
    - Kiryana Store
    - LMT
    - IMT
    - Shoes & Clothing
    - HORECA
    - Electronics
    - Fuel Station
    - Pharmacies

- WITHOUT POS / OTHER DIGITAL PAYMENTS
  - IDI’s were conducted with the following categories:
    - General Store
    - Kiryana Store
    - Shoes & Clothing
    - HORECA
    - Electronics
    - Fuel Station
    - Pharmacies

- ONLINE MERCHANTS
  - Online merchants like Daraz and Yayvo were interviewed along with some merchants registered on Daraz or other websites including Facebook

59 IDIs
IDIs with Stakeholders

The stakeholders with the below roles and responsibilities were interviewed in the study

<table>
<thead>
<tr>
<th>REGULATORS</th>
<th>BANKS</th>
<th>MFS PROVIDERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Head of Payment Systems</td>
<td>• Head Merchant &amp; Payment Systems – Digital</td>
<td>• Head of Digital Payments</td>
</tr>
<tr>
<td>• Joint Director</td>
<td>Banking Group</td>
<td>• Retail Issuing Products</td>
</tr>
<tr>
<td>• Deputy Director</td>
<td></td>
<td>2. JazzCash</td>
</tr>
<tr>
<td>2. Federal Board of Revenue (FBR)</td>
<td></td>
<td>• Manager Retail Payments</td>
</tr>
<tr>
<td></td>
<td>1. United Bank Limited</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Head Merchant &amp; Payment Systems – Digital</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Banking Group</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PAYMENT SCHEMES</td>
<td>ONLINE SHOPPING</td>
<td>OTHERS</td>
</tr>
<tr>
<td>1. VISA</td>
<td>1. DARAZ</td>
<td>1. Access Group</td>
</tr>
<tr>
<td>• Business Leader</td>
<td>• CFO</td>
<td>• Business Leader</td>
</tr>
<tr>
<td>2. Mastercard</td>
<td></td>
<td>• Business Leader</td>
</tr>
<tr>
<td>• Chief Business Officer</td>
<td></td>
<td>• Executive Director Marshal Group</td>
</tr>
<tr>
<td>3. 1Link</td>
<td></td>
<td>• Managing Director AltPay</td>
</tr>
<tr>
<td>• Head of Business Development</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2. Yayvo</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Head of Yayvo</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Phase – 2

Qualitative Phase
- IDIs with Merchants
- IDIs with Stakeholders

Quantitative Phase
- Validating Qualitative
  - Segmentation
Sampling Design

As the retail universe of Pakistan is largely undocumented, the data from the Household Integrated Economics Survey (HIES) conducted by PBS was used to develop a representative sample of merchants. The underlying assumption in employing the household expenditure data was based on the reasoning that the proportions of merchants would be in accordance with the expenditure made on a category.

“Household Integrated Economic Survey, PBS 2015-16” identified the wallet share of Pakistan customer as follow:

<table>
<thead>
<tr>
<th>Proportion of Expenses</th>
<th>HIES ’2015 – 16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food, Alcoholic / Non Alcoholic Beverages, Tobacco</td>
<td>39%</td>
</tr>
<tr>
<td>Housing, Water, Electricity, Gas, Communication and Other</td>
<td>25%</td>
</tr>
<tr>
<td>Clothing and Footwear</td>
<td>9%</td>
</tr>
<tr>
<td>Restaurants and Hotels, Recreation and Culture</td>
<td>8%</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>5%</td>
</tr>
<tr>
<td>Transport</td>
<td>5%</td>
</tr>
<tr>
<td>Education</td>
<td>4%</td>
</tr>
<tr>
<td>Health</td>
<td>3%</td>
</tr>
<tr>
<td>Furnishing, Household Equipment, Routine Maintenance of House</td>
<td>2%</td>
</tr>
</tbody>
</table>

Merchant types were identified based on the wallet share

Merchants were chosen from these categories for sampling
Final Sample Achieved

The below sample was achieved for the random survey and a separate sample of n=200 was completed as booster for shops having QR and MFS to have better readability for these segments.

<table>
<thead>
<tr>
<th>Total Random - Merchants</th>
<th>Total</th>
<th>Urban</th>
<th>Rural</th>
</tr>
</thead>
<tbody>
<tr>
<td>General stores</td>
<td>125</td>
<td>75</td>
<td>50</td>
</tr>
<tr>
<td>Kiryana stores</td>
<td>190</td>
<td>40</td>
<td>150</td>
</tr>
<tr>
<td>Local Modern Trade / Cash &amp; Carry</td>
<td>25</td>
<td>25</td>
<td>-</td>
</tr>
<tr>
<td>Bakeries</td>
<td>85</td>
<td>40</td>
<td>45</td>
</tr>
<tr>
<td>Vegetable/ Fruits Shops</td>
<td>150</td>
<td>70</td>
<td>80</td>
</tr>
<tr>
<td>Meat Shops</td>
<td>100</td>
<td>55</td>
<td>45</td>
</tr>
<tr>
<td>Milk Shop</td>
<td>225</td>
<td>95</td>
<td>130</td>
</tr>
<tr>
<td>Pan Shops</td>
<td>57</td>
<td>25</td>
<td>32</td>
</tr>
<tr>
<td>Restaurants</td>
<td>106</td>
<td>70</td>
<td>36</td>
</tr>
<tr>
<td>Fast food joints</td>
<td>45</td>
<td>45</td>
<td>-</td>
</tr>
<tr>
<td>Cafes (Tea Cafes)</td>
<td>85</td>
<td>35</td>
<td>50</td>
</tr>
<tr>
<td>Dhaabas</td>
<td>75</td>
<td>25</td>
<td>50</td>
</tr>
<tr>
<td>Mobile Stores</td>
<td>110</td>
<td>60</td>
<td>50</td>
</tr>
<tr>
<td>Home Appliances (Retailer)</td>
<td>32</td>
<td>22</td>
<td>10</td>
</tr>
<tr>
<td>Home Appliances (Installment)</td>
<td>28</td>
<td>8</td>
<td>20</td>
</tr>
<tr>
<td>Schools</td>
<td>129</td>
<td>95</td>
<td>34</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total Random - Merchants</th>
<th>Total</th>
<th>Urban</th>
<th>Rural</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sanitary/ Hardware Shops</td>
<td>35</td>
<td>20</td>
<td>15</td>
</tr>
<tr>
<td>Furniture Shops</td>
<td>35</td>
<td>20</td>
<td>15</td>
</tr>
<tr>
<td>Petrol stations</td>
<td>180</td>
<td>100</td>
<td>80</td>
</tr>
<tr>
<td>Public Transporters</td>
<td>75</td>
<td>35</td>
<td>40</td>
</tr>
<tr>
<td>Pharmacies</td>
<td>70</td>
<td>30</td>
<td>40</td>
</tr>
<tr>
<td>Clinics/ Dispensaries/ Hospitals</td>
<td>75</td>
<td>30</td>
<td>45</td>
</tr>
<tr>
<td>Beauty parlor/Salons</td>
<td>95</td>
<td>45</td>
<td>50</td>
</tr>
<tr>
<td>Barber Shops</td>
<td>133</td>
<td>55</td>
<td>78</td>
</tr>
<tr>
<td>Gyms</td>
<td>30</td>
<td>30</td>
<td>-</td>
</tr>
<tr>
<td>Cloth stores &amp; Apparel</td>
<td>130</td>
<td>40</td>
<td>90</td>
</tr>
<tr>
<td>Readymade Cloths/ Boutiques</td>
<td>95</td>
<td>55</td>
<td>40</td>
</tr>
<tr>
<td>Tailor shops</td>
<td>65</td>
<td>30</td>
<td>35</td>
</tr>
<tr>
<td>Shoe stores</td>
<td>80</td>
<td>45</td>
<td>35</td>
</tr>
<tr>
<td>Cinemas</td>
<td>10</td>
<td>10</td>
<td>-</td>
</tr>
<tr>
<td>Parks/ Play Land/ Fun land/ Melas</td>
<td>70</td>
<td>35</td>
<td>35</td>
</tr>
<tr>
<td>Books &amp; Stationary</td>
<td>55</td>
<td>35</td>
<td>20</td>
</tr>
</tbody>
</table>

Booster was conducted with QR and MFS merchants to get a readable base.
Challenges seen by Stakeholders for the development of Ecosystem

- **Lack of awareness about DFS**
- **Lack of awareness of cost of cash**
- **Less customer demand**

- **Acquirer to pay major chunk to Issuer**: Each merchant has more than one POS that’s why the MDR varies due to competition while the “interchange rate” is fixed
- **Issuers don’t let third-part to enter**: With the entrance of third-party there will be only one machine instead of multiple, hence fixed MDR instead of competing which the Issuers do not want

- **Cost is high for acquiring** – need license from Visa and/or Mastercard
- **Digital ecosystem and infrastructure is missing to convert cash into digital money**
- **Cards are not linked to phone**

- **Same regulations on telecoms as that of banks**
- **Too much documentation required**
- **Fear of taxes due to the documentation of sales**
- **Also have to pay “FED” for POS**

- **Cost of machine is high for small merchant**
- **MDR acts as a hurdle – hits the merchant’s income**
- **MDR stops acquirer to enter the business**
- **Variation of MDR leads to multiple POS machines**

- **Availability and acceptability of DFS is with only a few merchant types**
- **Lack of good DFS products to encourage customers and merchants towards adoption – banks don’t provide products that fulfil the needs of merchants and consumers**
- **Lack of incentives for merchants**
- **Lack of financial inclusion in general in Pakistan**

*Challenges seen across the board*
Cash is used universally with 95% using cash exclusively and 5% overlap with DFS, most of these are using POS

- 95% Cash only
- 5% Cash & DFS

**Key Findings – Merchants Landscape**

**Cash only**

- Amongst the merchants who are using cash only, there is very healthy awareness of POS (94%) and MFS (84%).
- However, the awareness for QR code (6%) and NFC (3%) is extremely low.

**Key drivers for usage of cash are:**
- Convenience
- Acceptability by customers and vendors,
- No hassle of going anywhere to get cash
- Privacy of information
  - May suggest avoidance of tax

**Pain points associated with cash usage are:**
- Fear of theft, fraud and fake notes
- Hassle to deposit cash in banks with their busy schedule

Despite the pain point satisfaction is still very HIGH

**Cash & DFS Overlap**

**Key drivers for POS usage are:**
- Customer demand
- Benefit to the Business
- Reliability amongst the users of POS.

**Satisfaction with DFS is lower as compared to cash and the key pain point are:**
- Service glitches,
- hassle faced during use,
- Inconvenient process
- Expensive owing to high charges

**Usage Drivers, Pain points and Satisfaction**
Key Findings – Merchants Landscape

Barriers towards DFS

1 | Low customer demand
2 | Difficult usage process
3 | High cost
4 | Some merchants also find the use of DFS to be expensive owing to high charges

Merchant payment category Drivers and Performance of Payments modes on those drivers

Easy to use  Common mode of payment  Covers all customer types  Can be used in emergencies  Demanded by vendor

Mode through which the merchants information remain private

Above are the 6 key drivers through which the merchant payments category is driven and CASH is occupying all these drivers
A two pronged push and pull strategy is proposed to be followed to improve DFS adoption in Pakistan.

The high importance and moderate importance drivers for the category can be divided into 3 buckets for actionability to identify where the push is needed and where we can create pull.

**Ecosystem**
- Demanded by customer, commonly used
- Demanded by vendor
- Covers all types of customers
- Used in emergency
- Used in many places

**Functionality**
- Quick
- Easy to use
- Secure

**Regulation**
- Privacy of information
- Privacy of records

The Push strategy needs to focus on creating customer/vendor demand. The ecosystem should aim to cover all types of payments, which can be used at all places thus removing the need for cash.

New products and services need to be developed that address the functionality expectations of merchants and push them create the pull for customers towards DFS.

Among other things, merchants are implicitly found to be using cash also for the reason that it helps them avoid taxes. Policy intervention may be required to give a tax holiday for some time to encourage adoption.
Way Forward

CONVERSION TO CASH | should also be made easily accessible to both merchants as well customers.

CREATE AWARENESS | Awareness and knowledge needs to be created very strongly for DFS amongst customers and merchants as well as vending.

COVER ALL PAYMENT TYPES | The ecosystem should ensure that digital modes cover all sorts of payment types that can be made across Pakistan and in times of emergency as well.

PERCEIVED USEFULLNESS | can be done by communicating business benefits it provides.

REMEDIES TO PAIN POINTS | The strengths of DFS may be emphasized to give peace of mind to the merchant by:

• Removing fear of fraud and theft or receiving fake notes.
Merchants dealing in cash have the benefit that it gives them privacy of information and their records remain private, which may lead to saving taxes for them.

Regulation for taxation may also need to be addressed where giving the merchants a tax holiday for some years may help conversion to digital and documentation of the economy.

SBP may also remove the barrier of strict rules and regulations and lengthy documentation requirements for merchants to open digital accounts to encourage the use of DFS in Pakistan.

New products and services need to be developed that are easy and convenient to use and are quick.

The issue of Service glitches faced by merchants who are using DFS needs to be addressed so that adoption can be improved.

The products should be made secure and reliable for merchants in all situations. The costs of the products and services need to be shared by the industry as the merchants are not found to be willing to bear the cost.

FUNCTIONALITY

REGULATION

01

02

03

04

05

06
DETAILED FINDINGS
Cash is used universally by merchants...
Current Landscape
Merchant Payments

• Currently, cash is universal amongst the merchants in Pakistan with 95% exclusive usage of cash to receive payments.

• The incidence of the usage of DFS is low at present with only 5% merchants using any of the digital solutions.

• Digital solutions are used in addition to cash; exclusive usage of DFS is not found.
Let's explore the Cash + DFS overlap

5% of the merchants
Who are they?
What are they using?
What drove them towards DFS?
Are they satisfied with the solutions?
Current DFS usage

Mode of payments

• Amongst DFS use currently, POS is the predominant mode of usage, with overall 3% of the merchants using POS.

• It is used by 44% of the LMTs and 34% of petrol stations. Fast-food joints (9%) and Shoe stores (9%) are also using POS.

• MFS is being used by 1% of the merchants to receive payments, mainly mobile shops (5%) and Bakeries (5%).

• Usage of QR code is negligible overall.

**Base (all merchants): 2800**
Drivers for using POS

Mode of payments

- The adoption of POS by merchants is chiefly driven by **Customer demand** *(55% of the merchants using POS)*
- **Reliable** *(51% of the merchants using POS)*
  - Reliable mode
  - No fear of fake note
- **Push from banks** *(28% of the merchants using POS)*
  - Bank encourages it
  - Banks offer discounts
- **Modern** *(25% of the merchants using POS)*
- **Convenience** *(39% of the merchants using POS)*
  - No counting mistake
  - Easy record keeping
- **Benefits to the business** *(52% of the merchants using POS)*
  - Increase customers traffic
  - Display positive image
  - Improves financial statement
  - Helps in getting loans etc.
- **Security** *(27% of the merchants using POS)*
- **Free from hassle** *(16% of the merchants using POS)*

*Base: users of POS payments (n=134)*

- It increases **customer traffic** and helps in giving a positive image of shops.
- The payments received improve the financial statements of the merchants and they can secure bank loans.
- **POS is also see to be reliable** *(51% of the merchants using POS)* with no fear of fraud or fake notes.
Enhance business growth
• All type of customer profile is captured and they do not lose any single customer by providing these services
• Increases profitability of business which in turns results in business growth

Positive image of business
• Repute of shop increases when demand of upper segment is met
• Improved bank statement helps to take other services like loans etc. (Electronics)

Income security
• Money is directly deposited in bank without carrying cash

Tension free
• Back up of transactions make it easy to track them for claim purposes.
• No tension of handling, carrying, counting cash, also no fear of fake notes. (Main reason of IMTs)
• There is no issues of trust on customer/worker side
Drivers for using MFS

Mode of payments

- Convenience (71% of the merchants using MFS) is the key driver

- They can receive payments without having to physically go, find it easy to use and suitable to them as no bank account is required

- Merchants are also driven towards MFS as they see benefit to their business with MFS facility

- Similar to POS, a key driver of MFS usage is Customer Demand as customers find it convenient to pay through MFS

Base: users of MFS payments (n=99)
Reinforced by Qualitative Findings...

**Profitability**

- Increases customer footfall in the shop who buys other things as well which in turns leads to high profitability and keep them satisfied. *(General store)*

**Customer facilitation**

- In case of e-ticket (railway) payment is received through MFS in remote areas by agents, which helps illiterate and rural passengers to buy tickets without traveling; it saves their cost and time

**Convenience**

- No need to maintain bank accounts
- Instant settlement *(General/Kiryana, online merchant)*
- Record of transactions makes it easier and quicker to reconcile without any hassle
Drivers for using QR Code

Mode of payments

- **Customer demand** (58% of the merchants using QR) is the key driver for usage of QR code
- QR code is seen by merchants to increase customer traffic, positive image of shop
- Money is transferred directly to the merchant’s account, it improves the health of their financial statements and helps in getting bank loans
- **Reliability** is also a key driver for QR code - it gives ease of mind as merchants don’t have to worry about fake notes or fraud
- Discounts given by banks on QR code is also a driver but less significant as it is more consumer centric

Customer demand
- Customer demand it
- Have QR and no cash
- Buys more than he has cash
  - Buy in bulk

Reliable
- Reliable mode
- No fear of fake note

Benefits to the business
- Increase customers traffic
- Display positive image
- Improves financial statement
- Helps in getting loans etc.

Modern
- 39%

Convenience
- No counting mistake
- Easy record keeping

Security
- 25%

Push from banks
- Bank encourages it
- Banks offer discounts

Free from hassle
- 16%

Base: users of POS payments (n=53)
Level of Satisfaction with DFS mediums

Mode of payments

- Even amongst the users of DFS modes, the level of satisfaction is the highest for cash (80%)

- The level of satisfaction amongst merchants using MFS is slightly lesser with (66%) followed by 62% merchants satisfied with POS

- The level of satisfaction is the lowest for QR code, only about 1/3rd of the merchants are convincingly satisfied

<table>
<thead>
<tr>
<th>Mode of Payments</th>
<th>Mean Scores</th>
<th>Base: Users of each payment method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>80%</td>
<td>6.3</td>
</tr>
<tr>
<td>Bank</td>
<td>43%</td>
<td>5.3</td>
</tr>
<tr>
<td>POS</td>
<td>62%</td>
<td>5.8</td>
</tr>
<tr>
<td>MFS</td>
<td>66%</td>
<td>5.8</td>
</tr>
<tr>
<td>QR</td>
<td>35%</td>
<td>5.2</td>
</tr>
</tbody>
</table>

7 points satisfaction scale used: 7: Extremely satisfied and 1: Extremely dissatisfied
Pain points with POS

Mode of payments

- By and large the key reasons for lower satisfaction with POS are the service glitches
  - Hassle
    - Deal with more than one bank
    - No instant settlement
  - Service glitches
    - Network/machine issues
    - Card not accepted
    - Double swipe
  - Hassle
    - Impression of expensive shop
    - Not feasible for small amounts
  - Inconvenient
    - Lengthy process
    - Difficult process
    - Time taking
  - Cost
    - High charges
    - Cost of machine etc.
  - Vendor problem
    - Vendor prefer cash
    - Vendors give discounts on cash

- 34% of the merchants who use POS see it as a hassle.
  - Have to deal with more than one bank
  - Instant settlement is not provided

- POS is also seen as inconvenient by 1/3rd of the merchants using POS
  - Process is lengthy, difficult and takes longer compared to a cash transaction

Base: users of POS
Pain points with MFS

Mode of payments

- **Service glitches** is a pain point stated by 81% of the merchants using MFS:
  - Network issues, service not available, error faced during transaction, mobile hangs up

- Almost **half of the merchants** who use MFS find it to be **inconvenient**.
  - Payment process is lengthy
  - It takes longer

- 43% of the merchants state that they have **lesser cash in hand** to meet their urgent expenses

Base: users of MFS
Pain points with QR Code

Mode of payments

- For QR code, service glitches is the key pain point faced by 7 out of 10 merchants

- 1/3rd of the merchants who use QR code find the process to be lengthy and difficult

- Some merchants using QR code are dissatisfied as it is expensive and not feasible for transactions of small amounts

Base: users of QR
Lets now explore Cash only merchants...

95% of the merchants
What are their level of DFS awareness?
What are their pain points with cash?
Are they satisfied with cash?
What drove them towards Cash?
What are their barriers to DFS?
Level of Awareness with DFS

Amongst Merchants using cash only

- MFS is enjoying universal awareness where 94% of these merchants aware of MFS
- POS is also commonly known with 81% of the merchants aware of POS
- Awareness for QR code is relatively low with only 6% aware - mostly found in LMTs, Fast food restaurants, Petrol stations, Shoe shops, Schools and Beauty Salons.
- Awareness for NFC is also low and only 3% of these merchants are aware of the medium

Cash only – 95%

- MFS 94%
- POS payment 84%
- Payment via bank 81%
- Pre/postpaid cards 21%
- QR code 6%
- Till payments 3%
- NFC 3%

Almost all the merchant types have high awareness for MFS, POS payment method and payment via bank

Base (all merchants): 2800
Overall, cash is top of the mind as it is popular, commonly used & conventional.

<table>
<thead>
<tr>
<th>Payment Mode</th>
<th>Awareness/Understanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>High awareness</td>
</tr>
<tr>
<td>POS &amp; Electronic transfer</td>
<td>High awareness, low understanding</td>
</tr>
<tr>
<td>QR, Till &amp; NFC</td>
<td>Less awareness</td>
</tr>
</tbody>
</table>

Reinforced by Qualitative Findings...
Their Pain points with using Cash

Amongst Merchants using cash only

- Fear is the biggest pain point with 82% of the cash only merchants fearful of theft and fraud

- The second pain point with cash that merchants face is the hassle of going to the bank to deposit it

- Merchants also give credit to their regular customers and sometimes they receive delayed payment - a source of stress

- 1/3rd of the merchants dealing solely in cash are also bothered by handling of smaller notes. Keeping change to give back to customers is also a pain point.

Base: cash only users
Security of cash

Merchants feel unsafe while keeping/carrying cash

Fear of being swindled

No record of transactions makes accurate calculation of profit and loss difficult.

Record keeping is difficult

Cash deposit

Counting errors

Counting errors occurs during rush time. Checking notes is also a time taking task

Fake notes can be passed on from customers in case of more cash and merchant have to bear loss

No record of transactions makes accurate calculation of profit and loss difficult.

Long process to deposit money in the bank is considered as a time waste.
Trust Issues

- **Miscommunication from customer**: Confusions if customer claims to have paid but in actual is otherwise. Sometimes, customers also try to manipulate merchants by giving wrong amount during rush hours.
- **Workers handling cash**: Fear as they might take away few notes secretly.
- **Late payments from customer**: Customers usually don’t pay at the time of service and make late payments. (Parlor, local clothing, general store, wholesaler, electronics)

Reinforced by Qualitative Findings…
Level of Satisfaction with Cash

Amongst Merchants using cash only

• The merchants in Pakistan face issues while using cash to receive payments, nevertheless, they are still strongly satisfied with their current practice.

• The merchants seem to have accepted the problems they have while dealing in cash.

Base: cash only users

7 points satisfaction scale used:
7: Extremely satisfied and 1: Extremely dissatisfied
Drivers for using Cash

Amongst Merchants using cash only

- Cash is seen as the most easy mode of receiving payment by the merchants

- Cash gives instant settlement and the merchant has cash in hand for urgent needs and purchasing stock

- Usage of cash for payments is also driven strongly by Acceptability

- Cash is accepted everywhere, even customers who do not have a bank account can be dealt

- Vendors also deal in cash and give the merchants discounts when they pay in cash

- 1/3rd of the merchants prefer using cash as it keeps their income private and helps them avoid taxes
Cash being the most widely used method across, Sole proprietors and small entities owners are totally relying on it

**Pull factor - Personal comfort**
- Simplest mode of payment
- Time saving
- Maintains privacy
- Money goes into rolling
- Flexible- can be used when required
- Immediate settlement

**Push factor - Eco system**
- Commonly used
- Every type of customer is using
- Acceptance from vendors
- Get benefits on cash payments
- More of the customer is not upgraded, are unbanked

Reinforced by Qualitative Findings…
Universal acceptance
- Most customers only pay cash
- Accessible to all who are unbanked
- Many vendors accept only cash
- Vendors give discounts on cash payment

Easy to use
- It doesn’t require any technical and long process to receive

Quick settlement
- Can be received from all quickly at the time of rush hour without waiting
- Free from the hassle of having to go anywhere to collect cash
- Saved from the bother of long waiting in banks

Privacy
- It maintains confidentiality about earnings - saves them from taxes
- Cash can be used for daily home expenditures

Cash flow rolling
- Helps to buy stock on daily basis without going to ATM/bank and leaving their shop relying on workers.

Convenience

Control

Satisfaction
Comfort
Tension free
Contented

Reinforced by Qualitative Findings...
Barriers to POS usage

Amongst Merchants using cash only

- Low customer demand is the key reason for not using POS - customers lack awareness of POS and it is an uncommon mode

- The transaction process while using POS is considered to be difficult and more time consuming

- The merchants who are using cash are not encouraged by banks to use POS, rather deterred by strict bank rules and the required documentation

- Other barriers for POS usage by these merchants include high charges and the cost of POS device.

Base: Aware but never used POS
Awareness and education (Non users’ perspective)

- Less common
- Lack of demand from customer
- Lack of bank’s interest to provide these modes to low end merchants
- Banks have never educated about products
- Lack of knowledge about
  - How to use
  - How to apply

Makes it **difficult for merchant to consider** using these modes

Stringent Policies to issue POS machine (Non users’ perspective)

Artificial barriers created by bank risk policies:
- Many of merchants who want to keep POS machine do not qualify as per the strict bank requirements

Documentation required:
- Either merchant doesn’t have or they do not want to provide it to bank so they change their mind to consider these modes.

Makes it **difficult for merchant to adopt** these modes and they withdraw their decision.
Barriers to MFS usage

Amongst Merchants using cash only

- Customers lack awareness of MFS thus merchant see this as an uncommon mode with low demand

- MFS is not perceived to be a feasible option for small transactions

- The merchant also feel the charges for MFS are high and MFS Operators are not interested in engaging small merchants

- Documentation requirements to open an MFS account are another deterrent

Low Customer Demand
- Lack awareness
- Uncommon mode
- Low demand

Vendor problems
- Deal in cash
- Discount on cash
- Sends worker for payments

Misc.
- Not feasible for small amount

Hassle
- More than one financial provider

Cost
- High charges

Lack of trust
- Customers lack trust
- Merchant lack trust

No push from MFS providers
- No interest for small merchants
- Too much documentation

Lack of DFS knowledge

Lack of cash for urgent expenses

Base: Aware but never used MFS
Barriers of QR usage
Amongst Merchants using cash only

• Similarly to POS and MFS, the merchants do not see customer demand for QR code - customer lacks awareness and it is an uncommon mode

• 1/3rd of the merchants using cash exclusively see QR code to be costly with high service charges

• The merchants are afraid of QR code as customers may feel the shop to be expensive because of QR facility

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
<th>Causes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low Customer Demand</td>
<td>60%</td>
<td>Lack awareness, Uncommon mode, Low demand</td>
</tr>
<tr>
<td>Lack of cash for urgent expenses</td>
<td>19%</td>
<td></td>
</tr>
<tr>
<td>Misc.</td>
<td>29%</td>
<td>Not feasible for small amount, Impression of expensive shop</td>
</tr>
<tr>
<td>Lack of trust</td>
<td>11%</td>
<td>Customers lack trust, Merchant lack trust</td>
</tr>
<tr>
<td>Cost</td>
<td>29%</td>
<td>High charges, Can’t afford mobile etc.</td>
</tr>
<tr>
<td>Hassle</td>
<td>10%</td>
<td>More than one financial provider</td>
</tr>
<tr>
<td>No push from banks</td>
<td>28%</td>
<td>No interest for small merchants, Strict rules, Too much documentation</td>
</tr>
<tr>
<td>Lack of DFS knowledge</td>
<td>7%</td>
<td></td>
</tr>
<tr>
<td>Vendor problems</td>
<td>25%</td>
<td>Deal in cash, Discount on cash, Sends worker for payments</td>
</tr>
</tbody>
</table>

Base: Aware but never used QR
DFS Concept testing

Amongst those who are unaware of QR and NFC
The DFS Concept Exposure

For concept testing

• The merchants who receive payments exclusively through cash have very low awareness for QR Code and NFC

• These merchants were made aware of QR Code and NFC by showing them the concepts

• The following slides outline the merchants’ reactions to the concepts

Base: All merchants
Concepts
Two concepts were tested

NFC

- Tap your NFC Tag to the retailer's device, or
- Provide your account no to the retailer

QR Code

- Login to App OR Access USSD menu from *786#
- Scan QR from QuickPay option on Mobile App OR Enter 8 digit QuickPay ID from QuickPay option on USSD
- Enter amount and confirm transaction with MPIN
**Appeal of Concepts**

- Only 1/3rd of the merchants unaware of any of the Digital Financial Solutions liked the QR and NFC concept strongly.

- The Appeal of the DFS concepts amongst these merchants is found to be low.

---

**Base: unaware with each mode**

7 points Appeal scale used: 7: Extremely liked and 1: Extremely disliked.
Reasons for Concept Appeal

- Those who liked the concepts found these to be good and easy to use.
- Some merchants liked QR code as they perceived it to have lesser charges.
- NFC was perceived to be a safer mode of payment compared to cash by the merchants who liked the concept.

<table>
<thead>
<tr>
<th>QR Code</th>
<th>NFC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Good and easy</td>
<td>Good and easy</td>
</tr>
<tr>
<td>Less Charges</td>
<td>Safe</td>
</tr>
<tr>
<td>Safe</td>
<td>Time saving</td>
</tr>
<tr>
<td>Modern</td>
<td>Instant payments</td>
</tr>
<tr>
<td>Like mobile account</td>
<td>Modern</td>
</tr>
<tr>
<td>Instant payment</td>
<td>Like mobile account</td>
</tr>
<tr>
<td>Time saving</td>
<td>No need of cash</td>
</tr>
<tr>
<td>No need of cash</td>
<td>New</td>
</tr>
<tr>
<td>Record privacy</td>
<td></td>
</tr>
<tr>
<td>Online payments</td>
<td></td>
</tr>
</tbody>
</table>

- **QR Code**
  - Good and easy: 47
  - Less Charges: 20
  - Safe: 12
  - Modern: 9
  - Like mobile account: 5
  - Instant payment: 4
  - Time saving: 3
  - No need of cash: 2
  - Record privacy: 1
  - Online payments: 1

- **NFC**
  - Good and easy: 47
  - Safe: 19
  - Time saving: 11
  - Instant payments: 10
  - Modern: 9
  - Like mobile account: 8
  - No need of cash: 2
  - New: 1
Reasons for not liking the Concept

- Around half of the merchants unaware of DFS did not like the QR concept K

- Key reason for dislike was ‘difficult to use’ (36%)

- NFC was also found to be difficult to use by these merchants

- 1/3rd of these merchants stated their dislike for the NFC concept but were not able to offer a reason for it

<table>
<thead>
<tr>
<th>NFC</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>No likes (without reason)</td>
<td>36</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Difficult</td>
<td>29</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issues in Device</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Not for small business</td>
<td>4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No smartphone with most</td>
<td>4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Time taking</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No knowledge</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>QR Code</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Difficult</td>
<td>36</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No likes (without reason)</td>
<td>18</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Time taking</td>
<td>7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Not for small business</td>
<td>4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No smartphone with most</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No privacy of personal info</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash is easy</td>
<td>3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>High charges</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Not suitable for small business</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issues in Device</td>
<td>2</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Base: unaware with each mode and disliked concepts
Were the Concepts Easy to understand?

- Only 1/4th of the DFS unaware merchants found the DFS concepts to be easy to understand - majority could not understand the modern modes well.

<table>
<thead>
<tr>
<th></th>
<th>Extremely agree</th>
<th>Somewhat agree</th>
<th>Indifferent</th>
<th>Somewhat disagree</th>
<th>Extremely disagree</th>
<th>Mean scores</th>
</tr>
</thead>
<tbody>
<tr>
<td>QR</td>
<td>25%</td>
<td>13%</td>
<td>16%</td>
<td>12%</td>
<td>34%</td>
<td>3.9</td>
</tr>
<tr>
<td>NFC</td>
<td>27%</td>
<td>13%</td>
<td>17%</td>
<td>14%</td>
<td>30%</td>
<td>3.9</td>
</tr>
</tbody>
</table>

Base: unaware with each mode

7 points agree/disagree scale used:
7: Extremely agree and 1: Extremely disagree
Did the merchants find the DFS Concepts Relevant to them?

- Only about 1/4\textsuperscript{th} of the merchants unaware of DFS modes found either of the concepts to be relevant to them

<table>
<thead>
<tr>
<th></th>
<th>Extremely agree</th>
<th>Somewhat agree</th>
<th>Indifferent</th>
<th>Somewhat disagree</th>
<th>Extremely disagree</th>
<th>Mean scores</th>
</tr>
</thead>
<tbody>
<tr>
<td>QR</td>
<td>25%</td>
<td>13%</td>
<td>16%</td>
<td>12%</td>
<td>34%</td>
<td>3.8</td>
</tr>
<tr>
<td>NFC</td>
<td>26%</td>
<td>13%</td>
<td>15%</td>
<td>13%</td>
<td>34%</td>
<td>3.8</td>
</tr>
</tbody>
</table>

*Base: unaware with each mode*

*7 points agree/disagree scale used: 7: Extremely agree and 1: Extremely disagree*
Did merchants find the DFS modes Easy to use?

- The process of using DFS modes was found to be difficult by merchants post concept exposure.

<table>
<thead>
<tr>
<th></th>
<th>Extremely agree</th>
<th>Somewhat agree</th>
<th>Indifferent</th>
<th>Somewhat disagree</th>
<th>Extremely disagree</th>
<th>Mean scores</th>
</tr>
</thead>
<tbody>
<tr>
<td>QR</td>
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<td>13%</td>
<td>16%</td>
<td>13%</td>
<td>32%</td>
<td>3.9</td>
</tr>
<tr>
<td>NFC</td>
<td>27%</td>
<td>13%</td>
<td>17%</td>
<td>13%</td>
<td>31%</td>
<td>3.9</td>
</tr>
</tbody>
</table>

*Base: unaware with each mode*

*7 points agree/disagree scale used:*

7: Extremely agree and 1: Extremely disagree
Likelihood of DFS usage post Concept Exposure

- Post the concept exposure, the likelihood of using the DFS modes in future was found to be low with only 1/10\textsuperscript{th} of these merchants showing strong interest.

<table>
<thead>
<tr>
<th>Mode</th>
<th>Highly likely</th>
<th>Somewhat likely</th>
<th>Indifferent</th>
<th>Somewhat unlikely</th>
<th>Highly unlikely</th>
<th>Mean scores</th>
</tr>
</thead>
<tbody>
<tr>
<td>QR</td>
<td>13%</td>
<td>18%</td>
<td>20%</td>
<td>16%</td>
<td>33%</td>
<td>2.6</td>
</tr>
<tr>
<td>NFC</td>
<td>12%</td>
<td>18%</td>
<td>20%</td>
<td>17%</td>
<td>33%</td>
<td>2.6</td>
</tr>
</tbody>
</table>

*Base: unaware with each mode*

*5 points willingness to use scale used: 5: Highly likely and 1: Highly unlikely*
Key Category Driver and Image perception
Key category drivers

Merchants Payment Landscape

- The importance of category attributes was obtained by running Jaccard analysis.

- It uses the image attributes as independent variables and behavior as the dependent variable to obtain attributes that drive behavior.

- The merchant payment category is currently being driven by mostly functional attributes and attributes related to the ecosystem.

<table>
<thead>
<tr>
<th>High Importance</th>
<th>Moderate Importance</th>
<th>Low Importance</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Easy to use</td>
<td>✓ Trustworthy</td>
<td>o Helps in record keeping</td>
</tr>
<tr>
<td>✓ Commonly used among customers</td>
<td>✓ Commonly used in many places</td>
<td>o Dependable</td>
</tr>
<tr>
<td>✓ Quick</td>
<td>✓ Maintains positive repute</td>
<td>o No need of internet</td>
</tr>
<tr>
<td>✓ Customer demand</td>
<td>✓ Privacy of records</td>
<td>o Becoming today's need</td>
</tr>
<tr>
<td>✓ Used in emergency</td>
<td>✓ Used in rural areas</td>
<td>o Good for large payments</td>
</tr>
<tr>
<td>✓ Cover all type of customers</td>
<td>✓ Business growth</td>
<td>o Purchase form far-flung areas</td>
</tr>
<tr>
<td>✓ Vendors demand</td>
<td>✓ Security</td>
<td>o Modern</td>
</tr>
<tr>
<td>✓ Privacy of information</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Strategy

Mode of payments

- The attributes of High Importance that are driving the category have been plotted against the performance of each of the payment medium to arrive at the future strategy for encouraging DFS usage.
## Performance

### Mode of payments

- **Currently cash is occupying all the High importance drivers amongst the merchants in Pakistan and also is performing at strength on some of the attributes which have moderate importance**

- **Strength of DFS currently lies on the attributes that are low in importance for the merchants of Pakistan**

<table>
<thead>
<tr>
<th>Strength</th>
<th>Improve</th>
<th>Weakness</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Becoming today’s need (POS, MFS)</td>
<td>• Easy to use (POS)</td>
<td>• Modern (Cash)</td>
</tr>
<tr>
<td>• Purchase form far-flung areas (POS, MFS)</td>
<td>• Commonly used among customers (Cash)</td>
<td>• Low Importance</td>
</tr>
<tr>
<td>• Modern (POS, MFS, QR)</td>
<td>• Quick (Cash)</td>
<td>• Commonly used in many places (QR)</td>
</tr>
<tr>
<td></td>
<td>• Customer demand (Cash)</td>
<td>• Used in rural areas (MFS)</td>
</tr>
<tr>
<td></td>
<td>• Used in rural areas (MFS)</td>
<td>• Cover all type of customers (Cash)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Vendors demand (Cash)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Privacy of information (Cash)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Low Importance</th>
<th>Moderate Importance</th>
<th>High Importance</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Easy to use (Cash)</td>
<td>• Commonly used among customers (Cash)</td>
<td>• Used in emergency (Cash)</td>
</tr>
<tr>
<td>• Quick (Cash)</td>
<td>• Customer demand (Cash)</td>
<td>• Cover all type of customers (Cash)</td>
</tr>
<tr>
<td>• Used in rural areas (MFS)</td>
<td>• Vendors demand (Cash)</td>
<td>• Privacy of information (Cash)</td>
</tr>
</tbody>
</table>

*Base: All merchants*
Thank You!