Branchless Banking in Pakistan: Opportunities and Challenges

Muhammad Zahid1*, Haseeb Ur Rahman1, Bilal Ifikihar Makki2, Muhammad Jehangir3, Saeeda Rehman4

1Department of Management and Humanities, Universiti Teknologi PETRONAS, Malaysia
2NFC Institute of Engineering and Fertilizer Research, Faisalabad, Pakistan
3Department of Management Sciences, Abdul Wali Khan University, Pakistan
4Institute of Management Sciences, University of Science and Technology Bannu, Pakistan

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ABSTRACT

Branchless Banking (BB) is an emerging financial segment also known as “banking beyond branches”. Branchless banking has viable opportunities for old as well as new entrants in technology based businesses. The strategic alliances and integrations with banks, mobile network operators (MNO’s), agents, and infinite retail-outlets have the opportunity to maximize their profitability. New and emerging business opportunities always have challenges. Accordingly, BB also faces the challenges such as lack of trust, security, technology, e-readiness, regulatory norms, proper agent checking for implementation of AML (Anti Money Laundering), and KYC (Know Your Customer). The paper examines Strengths, Weakness, Opportunities and Threats (SWOT) of BB and recommends some strategies to overcome the identified challenges and make the avenue more profitable specifically in Pakistan. Despite enormous challenges, BB has many potential opportunities and scope to boost up the economy by improving employment opportunities and foreign investments in branchless banking infrastructure in the country.

I. INTRODUCTION

Branchless Banking (BB) defined by the State Bank of Pakistan (SBP) under the Branchless Banking Regulations (BBRs) 2011, that “Branchless Banking” or “BB” means the conduct of banking activities as outlined in these Regulations by Authorized Financial Institutions for customers having a branchless banking account. It does not include the information services already being provided by various FI’s [financial institutions] to their existing customers using channels like, phone, the internet, SMS etc.” [1]. BB has emerged as an integral part of the modern digital economy hence it not only needs to secure the money of customers but also the reputation of bank and agent as well [2], [3].

BB is technology based agent banking which not enables clients in depositing, transferring and withdrawing of money but also facilitates them in paying their utility bills without visiting bank branches in person [3],[4]. It takes away financial services and transactions beyond financial institutions (banks); and hence known as “banking beyond branches” or “banking the poor through everyday stores” [5]. BB has the advantage of place utility as clients prefer service at proximity or doorstep [6],[7]. Moreover, the common use of mobile phones and its widespread and already established infrastructure leverages and work as point-of-sale (POS) terminals for branchless banking [5], [8]. Mobile banking is a subset of branchless banking that has the advantage of using individuals’ own mobile phones to process the transactions [9]. Branchless banking delivery chain includes customers, financial service providers, mobile network operators, (MNO’s), agents, products, and technology platforms [10],[11].

In Pakistan, BB regulations were first introduced in April 2008. In the start SBP has taken constructive regulatory steps and announced clear guidance with mutual consensus of all the stakeholders including mobile network operators (MNOs), technology companies, and even a courier business (see Figure 1). The SBP have offered a variety of models with the help of aforementioned stakeholders. However, the SBP remains the ultimate monitoring authority for all the transactions carried out in any BB model. The recent revision to BB regulations made by the SBP in July, 2016. Among others, the revision focused on the responsibilities of Board of Directors in respect with BB transactions for ensuring the applicable laws and regulations. It also focused the technological advancement in shape of the introduction of 3G and 4G spectrums. Moreover, the increase in limits of BB transactions in different accounts was also focused in the revised regulations.

Despite numerous opportunities, BB also has some associated challenges. Studies identified that BB is abundant and influenced by many factors such as security, privacy and trust [8], [12-14]. It has been found that trust plays a vital role in the acceptance and adoption of new technologies particularly
in early stages of their implementation [2], [15]. Trust is considered as an important antecedent for customers’ loyalty [9], [16]. The other concern associated with branchless banking is boosting up stakeholders’ confidence by proper implementation of Know Your Customer-KYC (the procedure of obtaining and recording information relating to customer source of income, limits and utilizations), and Anti Money Laundering- AML (policies and procedures to control money laundering) [1].

The Government of Pakistan, and in particular SBP, has shown strong leadership in promoting financial inclusion as a policy priority.

After consulting with the private sector, the government issued new branchless banking regulation in April 2008. The regulation allowed for several models of branchless banking by which banks could offer services through a network of agents. This gave banks and their partners the confidence to invest in rolling out services. As services were rolled out, a number of issues that were still holding back sector development came to light. In response to these, SBP issued revised regulations in June 2011.

- The new regulation removed the requirement to capture biometric fingerprint information at the time of account opening for the lowest value accounts. Deploying the biometric capture technology to thousands of agents was expensive and created a significant barrier to customer enrollment. Biometric information could not be verified against the national database and, consequently, did not provide additional security. A digital photo of the account holder is now required instead to confirm the person was there at the time the account was created.

- Under the earlier regulation, customers could make a higher value of over-the-counter transactions than they could transact through an account, all with lower customer identification requirements. The new regulation raised the transaction limits on accounts to fix this discrepancy.

- The new regulation also introduced a “level 0” account, with very low balance and transaction limits, which may be opened electronically with no physical paperwork. This will further reduce the cost of account opening.

Figure 1: The Regulatory Environment for Branchless Banking in Pakistan
Source: Adopted [17]

The current study is exploratory in nature and aims to elaborate the strengths; weaknesses, opportunities, and threats (SWOT) in BB models in Pakistan.

Management Study Guide (MSG)\(^1\) defined that “SWOT is an acronym for Strengths, Weaknesses, Opportunities and Threats. By definition, Strengths (S) and Weaknesses (W) are considered to be internal factors over which you have some measure of control. Also, by definition, Opportunities (O) and Threats (T) are considered to be external factors over which you have no control”.

SWOT analysis is a helping tool for strategic planning, builds organization’s strengths. It provides information about the firm’s resources and capabilities with the competitiveness of environment where a firm operates. It not only identifies strengths of the firms but also brings its weaknesses into limelight. It also enables firm to focus and capitalize its opportunities by overcoming weaknesses and reducing threats. It helps firms in setting their objectives by analyzing the past and present in the perspective of future.

BB is a new topic of interest and has dearth of research particularly in respect with its opportunities and challenges. The current study contributes to the extant literature by conducting the SWOT analysis of BB. The findings of the study are also important for various stakeholders including regulatory bodies, practitioners, academia and banks.

II. STUDY OBJECTIVES

The objective of the study is to elaborate the SWOT analysis of branchless banking in Pakistan. It will further explain the concept of potential opportunities and hidden challenges in branchless banking with a special reference to Pakistan.

III. BRANCHLESS BANKING IN PAKISTAN

There are four models of BB operating in Pakistan namely large-scale deployments, pilot/small-scale launch, in principle approval and license application as explained in Figure 2 [17].

In the first model large-scale deployments Tameer Microfinance Bank and its parent company Telenor Pakistan, as a major MNO, launched BB service named Easypaisa in October 2009. Easypaisa allows customers, even those having no account in Tameer bank or a Telenor phone number, can make pay their bills and transfer money over-the-counter through an Easypaisa agent service.

United Bank Limited (UBL) one of the top commercial banks in Pakistan has launched its BB service in April 2010 in the name of UBL Omni. UBL Omni allows the customers to pay their bills and send money to any one in Pakistan via a large scale of agent network known as Omni Dukans. The service also offers access to UBL Omni accounts from account holder mobile phones via SMS or WAP and Omni ATM cards.

Figure 2: Emerging and Established Branchless Banking Services in Pakistan

In the second model of BB, pilots or small-scale projects have been launched in Pakistan. First Micro Finance Bank (FMB) was the first bank in in the country to launch BB banking in collaboration with Pakistan Post Office (PPO).

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\(^1\) http://www.managementstudyguide.com/swot-analysis.htm
FMB has received special permission from SBP to disburse and collect loans in PPO and further processed in FMB through BB. However, there is no plan to expand the service at large in the future. Dubai Islamic Bank (DIB) Ltd., Pakistan has also launched a BB service in April 2010, to target high net-work individuals. The plan was to operate low-cost channels for 50,000 existing customers in schools, business, residential areas, and shopping malls. According to DIB this service is based on the pilot phase at three sites and will expand to other 25 locations with time. However, the service will not target the mass market.

The final model of BB in Pakistan is anticipated market entrants which are supported by the new market entrants to provide BB services to their customers. Following are some of the examples:

- Mobilink is the largest MNO operating in Pakistan, with more than 32 million SIM cards. Mobilink has successful attempt to receive a license for a wholly owned microfinance bank named Waseela Microfinance Bank Limited.
- TCS is Pakistan’s biggest logistic and courier company aspired to utilize its agent network and convert its couriers into “barefoot bankers” in order to deliver financial services to their customers.
- Bank Alfalah and its sister company, Warid which is a cellular operator (both ownership by the Abu Dhabi Group), are expected to enter into branchless banking partnership.
- Askari has signed a deal to develop a branchless banking venture with Zong (China Mobile), the smallest but fastest growing MNO in Pakistan.

As for as the payment based models of BB is concerned, many models as mode of practice are practiced in Pakistan [1]:

- The first model practiced as mode of payment is known as P2P (Person to Person) where transfer of money is facilitated among individuals from one person to another for personal, business or any other legitimate use. The second mode or mode of payment is known as P2B (Person to Business) where the payments or transfers are exchanged between individuals and business firms.
- The third in-practice model is known as P2G (Person to Government) where the payments are transferred from individuals to government organizations and institutions like tax payment, import, export, and excise duties, etc. The fourth mode of payment known as G2P (Government to Person) transfers payments or funds from the government to individuals like salary, pensions, medical claims and other perks & fringe benefits.
- The fifth mode of payment is a fifth of the sequence which ensures the transfer of funds from one person to another for business. The sixth mode is P2B2P (Person to Bank or Bank to Person) which transfers money from an individual to business and vice versa.

According to the State Bank of Pakistan (2015)², new players in the field of branchless banking in the country have shown a tremendous growth. The total number of BB accounts increased from 2.1 to 15.3 million as of December 2015. In addition, the agent network has been increased by 12.7% to reach to 301,823 agents as shown in Figure 3.

![Figure 3: Trend in Number and Value of Transactions](image)

Figure 3: Trend in Number and Value of Transactions

During the quarter from October to December 2015, the statistics revealed 15.3 million BB accounts by increasing about 2.1 million new accounts. BB accounts are gradually being accepted and have grown almost three times in a single year from December 2014 to December 2015, as depicted in Figure 4. The statistics do not only indicate the significant growth, but also hint the satisfaction and trust of millions unbanked customers in the BB system of the country.

![Figure 4: BB Accounts Activity](image)

Figure 4: BB Accounts Activity

IV. METHODOLOGY

The data and observational analysis of the paper are secondary nature and extracted from literature and various reports on branchless banking to draw a conclusion regarding strengths, opportunities threats and challenges of branchless banking in Pakistan.

V. SWOT ANALYSIS

SO (Strengths & Opportunities): According to Pakistan Telecommunication Authority (PTA) (2013), the total population of Pakistan is 192.0 million out of which 120.0 million are using mobile phones. BB transactions are based on mobile network infrastructure and hence it requires a low investment as the infrastructure has already well-established. The low initial capital outlay, widespread usage of mobile phones, economies of large scale and a developed infrastructure of cellular communication in Pakistan not only provide a sound market space but also grant a comparative and competitive edge in the global market. The exploration of diversification opportunities in BB products can deepen product mix which will lead to the satisfaction of already existing customers. In addition, it will also attract new customers. The access to low paid and poor class of the society to a default risk free financial system contributes to the opportunities of a new industry. The industry has also the potentials of the enriching job market and encouraging healthy competition in a developing country like Pakistan. The unexplored and uncovered potentialities of the market possess a wide scope for national as well as international investors. BB as related to banking of poor’s which has the opportunity for them to access the financial system and reported as economic development. Alternate delivery channels (ADC’s) help the BB transactions processing using different sources i.e. ATMs’, POS, banking channels, internet and m-wallet (mobile-wallet: transactions from mobile phones) which creates mass customization in the BB industry. Instead of visiting the overcrowding bank branches infinite BB retail outlets is the best choice for BB customer and thus it creates convenience to customers. Integration strategies among MNOs’, agents, and BB providing financial institutions build profitable strategic alliances to cope with competition in the m-commerce field. SWOT matrix showing these strengths and opportunities in upper columns of Figure 3.

TW (Threats & Weaknesses): There are some threats and weaknesses which affect the adoption and use of BB. First, data sharing and jeopardizing security and privacy of BB from the wrongdoers badly affect customers’ approach and response towards the adoption of BB in the market [4]. The second issue is of E-Readiness that weakens the BB rate of adoption in Pakistan. Third, the agents – the main stay of the industry are not properly trained. They are absolutely unaware of the latest information, circulars, rules regulations and regulatory norms relating to PR (Prudential Regulation), AML, KYC.

The loopholes of the industry weaken the check and balance on money launders which may help them floating their black money easily. The limited thresholds confines BB use only to personal transactions like utility bills payments, purchase of mobile vouchers and payment to friends or family members for their day to day expenses and debt payments, but there is an indispensable need to enhance the boundaries of BB for corporate and international exchange of funds in very prudent, secure and legitimate manners. SWOT matrix Figure 5 showing these threats and weaknesses.

<table>
<thead>
<tr>
<th>STRENGTHS</th>
<th>OPPORTUNITIES</th>
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<tbody>
<tr>
<td>Low-infrastructure requirements</td>
<td>Employment</td>
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<tr>
<td>Economies</td>
<td>Cost Reductions</td>
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<td>Diversification</td>
<td>Product Mix</td>
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<td>Mobile Operators</td>
<td>Readymade Customers</td>
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<td>Economic Development</td>
<td>Financial System Access</td>
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<tr>
<td>ADC’s Conceptual</td>
<td>Mass Customization</td>
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<tr>
<td>Infinite Outlets</td>
<td>Reduce Overcrowding</td>
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<tr>
<td>Retail Outlets</td>
<td>Convenience</td>
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<td>Integrations</td>
<td>Strategic Alliances</td>
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<tr>
<th>THREATS</th>
<th>WEAKNESSES</th>
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<tr>
<td>Difficult to Operate</td>
<td>Low Adoption</td>
</tr>
<tr>
<td>Privacy</td>
<td>Data Sharing</td>
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<tr>
<td>Security</td>
<td>Wrongdoers</td>
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<td>Agents Check</td>
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<tr>
<td>Limited Thresholds</td>
<td>Limited to Personal Use</td>
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<tr>
<td>Misappropriation</td>
<td>Unauthorized Sims</td>
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VI. DISCUSSIONS AND RECOMMENDED STRATEGIES

SWOT analysis postulates that BB has many opportunities for Govt., society, customers, banking and cellular communication industries, national and international investors. The opportunity of creating new employment opportunities will add to the social as well economic uplift of the society. Pakistan is a developing country with lower literacy rate and the lower class has little access to education which causes difficulties in computer technology based BB adoption. Hence, there is a need to make the approach more users’ friendly by introducing easily operated BB interfaces. SWOT matrix showing opportunities, challenges, threats and weaknesses with the SWOT strategies. BB transaction thresholds limit its use to personal transactions and retail sector
only. It can be expanded to business and corporate level to reshape BB as a complete financial solution for all type of users. A secure encryption system should be implemented in all BB transactions in order to prevent wrongdoers and hackers. BB customized saving oriented product that flourishes and encourages saving habits among low income earners. Service providers should offer different products derivative to modern banking and ensures its availability throughout the BB outlets. It is also encouraged to offer ADC’s blended products like ATM, Debit Cards and Cash Cards etc. in order to access and operate BB modules at all available sophisticated channels. The regulators and policy makers should concentrate on the proper and prudent check on MRs’ (minimum requirements for transaction processing as per the branchless banking law) for processing of BB transactions [1].

VII. CONCLUSION AND FUTURE RESEARCH

To conclude the study, branchless banking should be secured in all respects. Regulations, KYC, AML policies and MRs’ as per PR (Prudential Regulation) should also be implemented in every transaction initiated from the branchless banking system for the complete legitimacy of the transactions. The detection of fraudulent and unlawful transactions, lack of security, trust and reliability, absence of users’ friendly technologies, and risks aversion in BB are the issues which require attention.

Yet BB lacks proper awareness in general public which causes the fatal distrust in the industry. This requires proper attention and due diligence with care. It is also necessary to step forward by the stakeholders to strengthen and shield all the boundaries from wrongdoers and money launderers for making BB sound, safe and profitable. Future researches are recommended to individually examine other factors such as trust, security, privacy, legal requirements and demographic factors which may affect the adoption of branchless banking in Pakistan.

REFERENCES