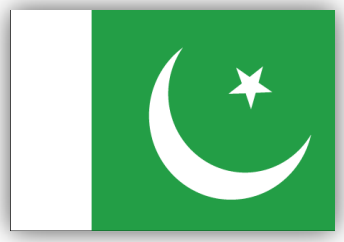
Technology Program Country Note

PAKISTAN



April 2011

Overview[1]

Population:	177 million	(2010 figure)
% urban:	36	(2008 figure)
% aged under 15:	36	(2010 figure)
GDP/capita (PPP):	$2,600	(2009 figure)
No. bank branches:	9,041	(2010 figure)
No. bank accounts:	16 million	(2009 estimate)
No. mobile phones:	97 million	(2010 figure)

Introduction

Although Pakistan's population exceeds 170 million,[2] it is estimated that there are only 16 million individual bank accounts,[3] meaning that the vast majority of the population is without access to banking services. Access challenges are particularly acute in rural areas, where there are fewer than 2,500 branches for a population of 105 million people—or an average of 42,000 inhabitants per branch.[4] In contrast, the number of mobile telephone customers exceeds 97 million.[5] In Pakistan, a dynamic telecommunications sector and permissive regulator have laid the foundation for an emerging branchless banking sector.

CGAP has a long history of working with the State Bank of Pakistan (SBP), which has emphasized financial inclusion as a major policy goal. In 2008, SBP issued the Branchless Banking Regulation (BBR), which lays out a clear legal framework for the provision of branchless banking services by banks. SBP has issued four branchless banking licenses; two services are operational in the market at scale. CGAP has been involved since the first days of the branchless banking sector and provided a grant to Tameer Microfinance Bank in January

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[1] Sources for data are Central Intelligence Agency, The World Fact Book, retrieved 10 August 2010, https://www.cia.gov/library/publications/the-world-factbook/geos/pk.html and CGAP/World Bank, *Financial Access 2009*, http://www.cgap.org/p/site/c/template.rc/1.9.38735/ and CGAP/World Bank, *Financial Access 2010.*

[2] Central Intelligence Agency, The World Fact Book, retrieved 19 February 2010, https://www.cia.gov/library/publications/the-world-factbook/geos/pk.html.

[3] "Overview, Financial Market Structure, Regulations, and Policies," p. 8, retrieved 25 February 2010, http://siteresources.worldbank.org/PAKISTANEXTN/Resources/293051-1241610364594/6097548-1242706658430/Ch1BringingFinancePakistanPoorMay192009.pdf; siteresources.worldbank.org/PAKISTANEXTN/Resource—2009-05-19

[4] Pakistan 10 Year Strategy Paper for the Banking Sector (2010) (Banking Sector Strategy Paper), Section 55 at http://www.sbp.org.pk/bsd/10YearStrategyPaper.pdf.

[5] Pakistan Telecommunication Authority Web site, http://www.pta.gov.pk/index.php?option=com_content&task=view&id=650&Itemid=603, retrieved 19 February 2010.

2008. Tameer went on to be the first to launch a commercial service, in November 2009, in partnership with a major mobile network operator (MNO), Telenor. CGAP has remained heavily involved in helping Tameer develop its service over the past three years.

In April 2010, a large commercial bank, UBL, launched Omni, the second branchless banking service in Pakistan. There are signs that other actors are seeking to enter the market as well, and several license applications have been submitted to SBP. All actors, however, still face a number of regulatory and business challenges.

The Government of Pakistan recently launched two pilots for financially inclusive payment mechanisms of its flagship social safety net program, the Benazir Income Support Programme (BISP). Other government departments are also interested in exploring payment pilots as an aid to financial inclusion.

Situation Analysis

Policy and Regulatory Environment

After a well-attended workshop on branchless banking in November 2006, the Government of Pakistan established a forum for relevant stakeholders to discuss Pakistan's approach to branchless banking. Over time, the participation of most of the major industry stakeholders declined, leaving SBP, the Ministry of Information Technology (MoIT), and Tameer as the main participants.

In June 2007, the Banking Policy and Regulations Department (BPRD) of SBP released its Policy Paper on the Regulatory Framework for Mobile Banking in Pakistan. The Policy Paper states that bank-led branchless banking "offers a distinct alternative to conventional branch-based banking in that [the] customer conducts financial transactions at a whole range of retail agents (or through mobile phones) instead of at bank branches or through bank employees."[6] The resulting 2008 BBR generally implements the approach articulated in the Policy Paper.

SBP considered several models of branchless banking before deciding to, initially, allow only bank-led models. BBR permits three bank-led models: one-to-one, one-to-many, and many-to-many. These three models apply to arrangements between banks and MNOs as well as to arrangements between banks and other agents (such as gas stations, chain stores, and the Pakistan Post) using either mobile phones or other technologies, such as point-of-sale (POS) devices, to communicate between the bank and the agent. (BBR refers to non-MNO branchless banking arrangements as "alternate channels.")[7] In all cases, the customer has a relationship with the bank through a branchless banking account. BBR defines "branchless banking" to exclude "information services" provided by banks to their existing customers via channels including phone, Internet, and SMS.[8] For example, MCB Bank customers are able to engage in

[6] Policy Paper, p. 2 at http://www.sbp.org.pk/bprd/2007/Policy_Paper_RF_Mobile_Banking_07-Jun-07.pdf.

[7] BBR, Section 3.1

[8] BBR, Section 2. The meaning of "information services" is not elaborated upon. However, given the statement in the Policy Paper (which predates BBR) that banks could offer existing customers the ability to do account-to-account fund transfers and payments via SMS, it is reasonable to interpret "information services" to include instructions by a customer to make a payment from the customer's account. Policy Paper, p. 7.

mobile phone-enabled Internet banking via smart phones enabled with wireless application protocol (WAP). However, this model does little (if anything) to promote financial inclusion since there is no outreach to the unbanked, and it requires the use of expensive mobile phones.

The three models can be summarized as follows:

One-to-one model. In this model, a bank offers banking services via a branchless banking account through (*i*) a single MNO, either by means of an agency or a joint venture agreement with the MNO or (*ii*) an agent network.[9] The EasyPaisa Mobile Wallet (discussed below) offered by Tameer Bank and its parent, Telenor, to customers who have a Telenor mobile phone is an example of this model. (Tameer Bank also offers a limited service through its EasyPaisa agents to customers of other MNOs or customers who do not have a phone at all. These customers are able to transact one-off bill payments and send domestic remittances to other noncustomers.)

One-to-many model. This model involves a bank offering banking services via a branchless banking account (*i*) to any person with a mobile phone provided that the customer's MNO can provide an SMS pipe with adequate speed for processing transactions or (*ii*) through many independent agents.[10] As described in BBR, in the case of mobile phone banking services, the model has limitations, including the fact that not all MNOs are ready to offer the bank a priority SMS pipe to enable the bank to provide fast service. Second, the bank must bear all advertising and marketing expenses. Finally, the model may require the bank to rely on its own branch network for product distribution and cash-in, cash-out services. United Bank Limited (UBL) Omni (also discussed in more depth below) is an example of a one-to-many model, where UBL has developed its own network of agents that will serve customers of any mobile operator.

Many-to-many model. This model involves a central transaction processing system (i.e., switch) that provides total interoperability, allowing several banks to offer services to customers of several agent networks or MNOs.[11] The switch must be controlled by a bank, an agent, or subsidiary of a bank or a subsidiary of a group of banks. The many-to-many model has not been implemented yet, although SBP views it as "the desired situation [in which] all banks and all telcos [are] able to entertain each other's customers."[12] The many-to-many model presents certain benefits to banks, including (*i)* the opportunity to purchase access to a switch (analogous to automatic teller machine [ATM] access), which would reduce the required investment in the technology required to support MNO branchless banking, and (*ii)* access to a large pool of new customers and the fee income from providing branchless banking services to them.[13]

In December 2009, SBP and the Pakistan Telecommunication Authority (PTA) agreed to set up a Joint Regulatory Committee to introduce a "unified regulatory framework for [a] Third Party

[9] BBR, Section 3.1.

[10] BBR, Section 3.1.

[11] BBR analogizes the switch to the existing ATM network, which permits a customer of any bank to use the ATMs of any other bank. BBR, Section 3.1.

[12] *Id.*

[13] Of course, a switch would not take care of the need to establish and maintain an agent network, which is an essential component of any of the bank-led models.

Solution Provider system."[14] It remains to be seen whether this new initiative will encourage the pursuit of the many-to-many model and if so, by whom.

There are still several challenges in the current regulation that CGAP believes may be holding back the industry, including (*i*) the requirement to capture biometric information at the time of account opening requires banks to invest in expensive infrastructure and hinders customer acquisition; (*ii*) low transaction thresholds, which have eroded significantly due to inflation since they were first set, reduce the usefulness of accounts; and (*iii*) high fees charged by the National Database and Registration Authority (NADRA) for verifying customer information at the time of account opening, which pushes up the cost of account opening.

G2P Payments

There is a lot of interest in using government-to-person (G2P) payments as a means of promoting financial inclusion. The government has experimented with financially inclusive payment channels for several schemes, including payments to internally displaced people (IDP) after the military action in the Swat valley, to the victims of August 2010 floods, and to beneficiaries of the Benazir Income Support Programme (BISP). In the first two schemes, funds were distributed via Visa-branded swipe cards provided by large commercial banks.

BISP payments have been traditionally delivered primarily through the Pakistan Post Office, but two live pilots use alternative technologies. The first uses "smart cards" although in practice it is a barcode on the back of the cards that is read. The second is a new mobile payment pilot that was rushed out with limited functionally. Critics question the sustainability of this model in the long term—the banks provided a small number of free mobile phones to beneficiaries for this first pilot, but are unlikely to be willing to do this on a larger scale.

Despite these problems, the Government of Pakistan is clearly interested in experimenting with new payment channels. CGAP has several potential government partners, including BISP, SBP, and other departments that pay salaries, pensions, and other entitlements, it can work with to design and evaluate the different pilots.

Industry Overview

Banks

SBP listed 45 scheduled banks that had licenses to offer banking services in Pakistan as of June 2008 (see Table 1). Of these banks, four have more than 1,000 branches: the publicly owned National Bank of Pakistan (NBP) and three private sector banks, Habib Bank Limited (HBL), UBL, and Muslim Commercial Bank (MCB).[15]

[14] 18 November 2009 Press Release, http://www.sbp.org.pk/press/2009/PTA-Meeting-19-Nov-09.pdf.

[15] State Bank of Pakistan website: http://www.sbp.org.pk/publications/schedule_banks/June_2008/Appendices.pdf

Table 1: Reporting Scheduled Banks (30 June 2008)

Sr. No	Bank	No. of Branches	Sr. No	Bank	No. of Branches
A)	**Public Sector Commercial Banks**	**1,592**	24	Standard Chartered Bank(Pakistan)	178
1	First Women Bank Ltd.	39	25	United Bank Ltd.	1,082
2	National Bank of Pakistan	1,245	**D)**	**Foreign Banks**	**60**
3	The Bank of Khyber	35	1	Al-Baraka Islamic Bank BSC	18
4	The Bank of Punjab	273	2	Citi Bank NA	26
B)	**Specialized Banks**	**539**	3	Deutsche Bank AE	3
1	Industrial Development Bank of Pakistan (IDBP)	20	4	Oman International Bank SAOG	3
2	SME Bank Ltd.	15	5	The Bank of Tokyo-Mitsubishi Ltd.	1
3	The Punjab Provincial Co-operative Bank Ltd. (PPCB)	159	6	The Hong Kong Shanghai Banking Corporation Ltd.	9
4	Zarai Taraqiati Bank Ltd. (ZTBL)	345		**Indian Banks***	**9**
C)	**Domestic Private Banks**	**6,143**	7	State Bank of India	2
1	ABN Amro Bank NV	80	8	The Bank of India Ltd.	1
2	Allied Bank Ltd.	760	9	The Central Bank of India	3
3	Arif Habib Bank Ltd.	12	10	The Oriental Bank of Commerce Ltd.	1
4	Askari Bank Ltd.	154	11	The Punjab National Bank	1
5	Atlas Bank Ltd	32	12	The United Commercial Bank	1
6	Bank Al-Falah Ltd.	223			
7	Bank Al-Habib Ltd.	202			
8	BankIslami Pakistan Ltd.	36			
9	Crescent Commercial Bank Ltd.	28			
10	Dawood Islamic Bank Ltd	11			
11	Dubai Islamic Bank Pakistan Ltd	18			
12	Emirates Global Islamic Bank Ltd	25			
13	Faysal Bank Ltd.	111			
14	Habib Bank Ltd.	1,450			
15	Habib Metropolitan Bank Ltd.	100			
16	JS Bank Ltd.	9			
17	KASB Bank Ltd.	40			
18	MCB Bank Ltd.	1,025			
19	Meezan Bank Ltd.	110			
20	my Bank Ltd.	69			
21	NIB Bank Ltd.	241			
22	Saudi Pak Commercial Bank Ltd.	55			
23	Soneri Bank Ltd.	92			

Indian Banks-Vested in the custodian of enemy property since September 1965 and are non-operative

There are also several microfinance banks and institutions in Pakistan (see Table 2). The decision by SBP to allow only banks to offer branchless banking services has increased interest in the microfinance sector from those that wish to offer such services. MNO Telenor's acquisition of Tameer Microfinance Bank led to speculation that other nonbank actors may seek to follow this path to enter the sector.[16] NRSP has also recently been awarded a microfinance bank license.

[16] The acquisition of microfinance banks is particularly attractive to nonbank actors due to their lower capital requirements (and hence cheaper price tag) and the lack of limit on the stake that can be taken by any one party.

Table 2: Microfinance Networks (Banks and Institutions) in Pakistan[17]

	MFB		Rural Support Programs
1	The First Micro Finance Bank Limited	1	Lachi Poverty Reduction Project (LPRP)
2	Khushali Bank Limited	2	National Rural Support Programme (NRSP)
3	Network Micro Finance Bank	3	Punjab Rural Support Programme (PRSP)
4	Pak Oman Micro Finance Bank	4	Sarhad Rural Support Programme (SRSP)
5	Rozgar Micro Finance Bank, Karachi	5	Thardeep Rural Development Programme (TRDP)
6	Tameer Microfinance Bank Limited	6	Sindh Rural Support Organization (SRSP)
7	Kashf Micro Fianance Bank		**Others**
	MFI	1	ORIX Leasing Pakistan Ltd. (OLP)
1	Akhuwat	2	Jinnah Welfare Society (JWS)
2	Asasah	3	Narowal Rural Development Programme (NRDP)
3	Kashf Foundation	4	Organization for Participatory Development (OPD)
4	Orangi Pilot Project (OPP)	5	Rural Community Development Society (RCDS)
5	Sindh Agricultural and Forestry Workers Cooperative Organization (SAFWCO)	6	Save the Poor (STP)
6	Community Support Concern (CSC)	7	Sungi Development Foundation (SDF)
7	Development Action for Mobilization and Emancipation(DAMEN)	8	Swabi Women's Welfare Society (SWWS)
8	Centre for Women Cooperative Development (CWCD)	9	Taraqee Foundation (TF)

Branchless Banking Operations

Four banks have been awarded branchless banking licenses, but only two have launched commercial services. **Dubai Islamic Bank** was the first to be awarded a license, but so far has opened only one agent location as a pilot. It plans to use the license to operate low-cost service points (for example in shopping malls), where its existing customers can use a range of services. We do not anticipate that Dubai Islamic Bank will develop a branchless banking service aimed at acquiring large numbers of customers in the mass market segment. **First MicroFinance Bank (FMB)** has signed an agreement with the Pakistan Post to serve poor customers through rural post offices, although this is very limited in its reach.[18]

The two services that have reached some scale in the market are Tameer Bank's **EasyPaisa** and UBL's **Omni** Service.

EasyPaisa. In October 2009, Tameer Microfinance Bank, and its parent company, Telenor, a major MNO, launched EasyPaisa. EasyPaisa allows both Telenor and non-Telenor customers to make over-the-counter bill payments and money transfers through EasyPaisa agents, who themselves hold accounts with Tameer.[19] The EasyPaisa mobile wallet, which allows customers to make payments from an account on their Telenor phone and allow Tameer to offer savings, insurance, and loan services to EasyPaisa customers, was launched in February 2010.

In early 2011, Tameer had more than 10,000 EasyPaisa agents operational, with ambitious plans to have 30,000 by 2012. EasyPaisa has processed more than 10 million transactions (75 percent of which are for bill payment). The mobile wallet has not seen such rapid take-up, and Telenor is holding back from marketing the service until it has improved the customer sign-up registration process.

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[17] Pakistan Microfinance Network website: http://www.microfinanceconnect.info/in_others%20.php

[18] http://ismailimail.wordpress.com/2010/01/29/first-micro-finance-bank-ltd-and-pakistan-post-office-ink-sign-for-poverty-alleviation/

[19] During the first phase of the EasyPaisa roll-out, the ultimate customers will not have a direct banking relationship with Tameer; rather, they will conduct their transactions through accounts in the names of Tameer agents, who will be based primarily in Telenor service outlets.

UBL Omni. Less than six months after EasyPaisa launched, UBL launched a similar offering (timed to coincide with the SBP Branchless Banking conference on 17 April 2010) under the UBL Omni brand. It now has 3,000 Omni Dukaans (agents) active in more than 300 large and small towns across Pakistan. Without the muscle of an MNO with an established distribution channel behind it, UBL Omni may take longer to build its agent network, but its roll-out so far shows that it is serious about this business. UBL has a large team working on Omni, including a sales and distribution team of "foot-soldiers" who directly manage the agent network. The Bill & Melinda Gates Foundation has made two grants totaling $8.4 million to UBL to support the Omni roll-out.

The UBL Omni product offering is very similar to that of EasyPaisa, except that it is available to customers of any mobile operator as well as over the counter. The mobile wallet is free to open and cash-in transactions are also free, but there is a bundled service fee on the account and a minimum account balance of Rs100, with an automatic penalty if the account balance falls below this. UBL has won contracts from the government and nongovernment organizations (NGOs) to disburse payments to large numbers of beneficiaries, including after the massive floods in 2010 and as a pilot for the delivery of government payments under BISP. There is already a small overlap between EasyPaisa and Omni agents.

Several other banks are considering the business case for branchless banking:

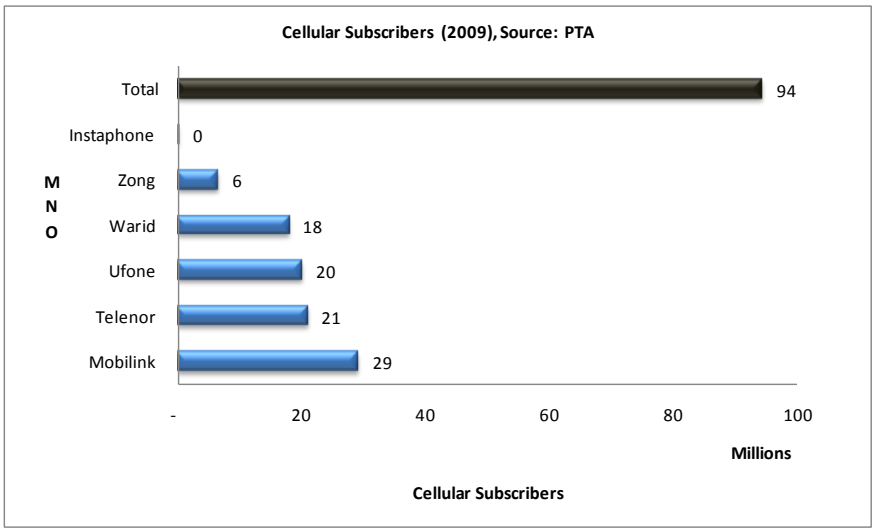
- **HBL** is a large bank owned in part by the Aga Khan Foundation and is facing considerable pressure from its board to launch a branchless banking service. As a first step, it is working with government-owned mobile operator U-fone on a BISP Mobile Banking pilot
- **Aksari Bank,** partly owned by the Army Welfare Trust, is developing a strategy that will center on providing salary payments to the armed forces. It may tie in with one of the mobile operators—Zong being the most likely (see below).
- **Bank Alfalah,** mobile operator Warid, and technology company Raseen are all owned by the Abu Dhabi Group and are trying to develop a business model that will work for all three of them. They are involved in the distribution of flood relief payments, and, like HBL, they are involved in the BISP mobile payment pilot.
- **MCB,** another large private bank, has made it clear for some time that it will not launch a branchless banking service, concentrating instead on its mobile banking platform, powered by Fundamo, for existing customers.

Several other banks have signed up to use the Genie platform (run by the largest MNO Mobilink) for retail commercial payments, such as utility bills, insurance premiums, and mobile air-time top-up. Citibank, KASB, and Atlas banks opted for Genie; customers of these banks can use services and their linked bank account or credit cards through the phone application to effect payments.

Mobile Network Operators

There are five major MNOs in Pakistan (Mobilink, Telenor, U-fone, Warid, and Zong). Consolidation in the market is expected, with speculation that Warid may be a target.

Figure 1: Pakistani Cellular Subscribers, by Network Operator



Telenor. Currently, Telenor, with its acquisition of Tameer, is the only MNO in the market. Its EasyPaisa service gives Telenor customers access to an expanding range of financial services through more than 10,000 agents.

Mobilink. Mobilink is Pakistan's largest MNO, by number of customers and by agent channel (by some estimates, it has 250,000 agents). It has the potential to be a serious market contender if it enters the market with the right bank partner. It has already made two unsuccessful attempts to get into the branchless banking business. Its first foray with the post office aimed to allow for mobile money transfers using the post office network. Uptake of this service was very poor, with transactions numbering in the hundreds. Its second attempt, in partnership with Citi, ended when the deal broke down two weeks before the planned April 2009 launch.

After looking seriously at acquiring a microfinance bank, Mobilink decided to start its own bank. Orascom, Mobilink's parent company, has been in the market for a banking license for several years and narrowly lost out on its bid to acquire the Pakistani business of Royal Bank of Scotland. Orascom is taking a cautious approach because it doesn't want another false start and to fall further behind Telenor. It has developed a business plan for a microfinance bank that has been approved by SBP. The new microfinance bank has recruited a chief executive officer who worked at Tameer on EasyPaisa, and it will use Utiba as the platform.

The intended business model appears to be a carbon copy of Telenor's and will, in the short term, be driven by over-the-counter domestic remittances and bill payments. The mobile wallet will follow, and it will look to win contracts for salary disbursements from businesses. In the short term, it sees little need to differentiate itself from the other players in the market, likening the environment to the early days of voice before the market became saturated and the price wars began.

Zong. Zong is the newest entrant to the market and is the fastest growing. It has competed aggressively on price to win market share. Zong's parent company, China Mobile, recently took

a stake in a bank in China, and it is thinking seriously about following this approach in Pakistan or getting its own license. It has support from the parent company in China in this regard, including from the group chairman who recently encouraged company executives to explore all options for entering Pakistan's branchless banking market. One potentially interesting strategy would be to strike a deal with a second tier bank, such as Askari Bank, as part of its strategy.

Warid. Rumors of a takeover have hounded Warid. If it does get into the market, it is highly likely that it will do so with its sister company Bank Alfalah (see above).

Ufone. Government-owned operator Ufone has developed solutions to help its customers access their bank accounts at a couple of large banks. The threat of an interoperable solution has prevented Ufone from investing heavily in its own solutions, and it is probably the least likely of the five MNOs to be significantly involved in a branchless banking service by the end of 2011; although it is involved in several government payment pilots in partnership with different banks.

Other distribution channels

The **Pakistan Post Office** manages more than 4 million savings accounts—mainly small accounts below Rs 10,000 (about US$118), through more than 12,000 branches.[20] Currently, post offices are used as payment agents for the government and utility companies, but they have the potential to serve as agents for banks. The Pakistan Post has entered into an unsuccessful partnership with Mobilink to provide a mobile money order for domestic remittances (see above).

TCS is a diversified courier and logistics company with a strong brand in Pakistan. This family business has nearly 400 branded express service centers across Pakistan and claims to reach an additional 12,000 locations. Built around an efficient distribution system, TCS has been looking for ways to leverage its network for inward remittances and other payments and to convert its couriers into "barefoot bankers" who would visit customers on their doorstep. Discussions with various banks have begun and TCS inquired about getting an exchange company license. Unsuccessful partnership discussions and SBP's negative views on exchange houses has pushed TCS apply for a microfinance bank license of its own, which it would then seek to convert to a branchless banking license in due course. TCS is in advanced negotiations to attract investment into the new bank. SBP is hesitating to grant TCS a license for a liability-driven business and seems intent on forcing TCS to run a full service microfinance bank.

Other stakeholders

In 2008, the UK Department for International Development (DFID) committed £50 million (US$81 million) to the Financial Inclusion Programme (FIP), with funding channeled through SBP.[21] FIP is a four-year program with a broad remit that includes lending to micro and small enterprises, low-income housing finance, and rural finance, as well as remittances, Islamic finance, innovation, and branchless banking. FIP has a limited amount of grant funding under a number of different windows.

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[20] Banking Sector Strategy Paper, Section 58(v) at http://www.sbp.org.pk/bsd/10YearStrategyPaper.pdf

[21] DfID Annual Report 2009. http://www.dfid.gov.uk/Documents/publications/PSA/E_Pakistan.pdf.

The Bill & Melinda Gates Foundation has recognized the potential of the Pakistani market and has made two large grants to UBL. The first is for $6.9 million to support the general roll out of Omni and has been channeled through Shore Bank International Pakistan (SBIP). Another grant of $1.5 million is specifically to support flood relief efforts. It is likely that the Foundation may also make a grant of comparable size to Telenor to support the roll out of easypaisa.

USAID has been developing plans for a large and wide ranging financial sector development program for some time, but this has been hampered in part by frequent policy and personnel changes. USAID is interested in mobile banking and has significant resources to spend in this area, probably through a large bilateral program.

The pool of consultants in Pakistan with the technical capability to work on branchless banking is relatively limited. ShoreBank International Pakistan is possibly the strongest operation in the country and is seeking to build its expertise through a partnership with UBL. It has also produced a report for the World Bank team working on BISP on the feasibility of making government payments through financially inclusive electronic channels.

Key Challenges and Opportunities

The overall environment for branchless banking in Pakistan is relatively permissive. BBR, although not perfect, makes the Central Bank's position very clear, and actors have responded with the launch of commercial services. New regulations or signals that SBP was thinking of radically altering its approach would not be advisable at the moment, but there are amendments and clarifications that could be made to BBR, which would not necessitate new legislation. Among the changes that we are actively seeking are the following:

- **Remove the requirement to capture biometric information.** The requirement for biometric fingerprint capture as part of the account opening procedure is costly for providers. At present, biometric images cannot be verified against the national database, and, consequently, they do not provide additional security. Although temporary exemptions have been granted to both Tameer and UBL, providers fear that they will ultimately have to comply with the biometric requirement—which does not give them confidence to invest in new technology at the agent level. This limits the ability of providers to open accounts at agent locations, which was a key goal of BBR and is necessary to promote widespread financial inclusion.

- **Raise the very low transaction limits.** Currently the transaction limits for "level one" accounts are very low, by international standards. Customers and agents complain that the transaction limits are so low that the service is not practical for everyday transactions. In addition, daily thresholds mean that greater volumes can be transacted "over-the-counter" with lower customer identification requirements than are required for level one accounts. BBR set the transaction limits in 2008, but, with inflation running in double digits, these already have been eroded significantly. SBP has indicated a willingness to consider increasing the limits or to linking them to inflation.

- **Reduce or remove high NADRA verification fees.** High verification fees charged by NADRA increase the cost of account opening. Verification should be seen as a public good and not as a means to maximize government revenues. NADRA fees (Rs 35-45) for Web-based verification are high, by international standards, and there is no justification for the fact that banks currently pay more than telecommunication companies (Rs 13) to access the same data. NADRA is a public entity and should not be seeking to maximize profits; rather, it should provide services at the cheapest possible price to all players to create a level playing field.

The Government of Pakistan is very interested in exploring the potential of using government payments as a way to support financial inclusion. CGAP is engaged with BISP, which is running several pilots with different actors. Because other government departments may also be interested in piloting financially inclusive payment mechanisms, CGAP plans to explore options for working with other government departments through a workshop with SBP.

CGAP has the opportunity to help an emerging “second wave” of players hoping to launch branchless banking services in 2011 get up to speed faster than their predecessors. Several of them say they want to work with CGAP.