Sustaining branchless banking momentum requires that mobile wallets become a currency, says Ghazanfar Azzam, President & CEO, Waseela Microfinance Bank

OVERVIEW (January 04, 2013) : Ghazanfar Azzam is the President and CEO of Waseela Microfinance Bank since April 2012. Prior to setting up the TCS Bank and TCS Financial Services (May 2011-March 2012), he served as the President and CEO of Kashf Microfinance Bank between June 2009 and April 2011, an institution which he helped establish in 2007. Ghazanfar is an MBA from the University of Punjab, Lahore. He has attended executive education and leadership programmes at the Penn State University, LUMS, and the Harvard Business School. Following are some excerpts from BR Research's recent discussion with Ghazanfar Azam in Islamabad on Microfinance and branchless banking: BR Research: How do you see the progress in Pakistan's Microfinance Industry? Ghazanfar Azzam: The Microfinance industry hasn't been able to take off in a major way because the institutions have been too weak and struggling to meet the State Bank's capitalisation requirements. Underperformance is directly linked to limited capital availability from the sponsors. The MFBs are growing now, but most of them are in loss. What matters in Microfinance is not the lending rate but the credit availability, and funds have been in short supply for lending. Once funding needs are met both through fresh equity and deposits, Microfinance market has the potential to revive the stagnant economy. We have to understand that comparing Pakistani MFBs with the Grameen Bank in Bangladesh is not right. Grameen had its journey of a quarter of a century till it evolved into a viable business model. In Pakistan, Microfinance started after 2000-01. Laws and regulations were replicated on the model of commercial banks, so they were tight, offering not much room for the players. Grameen operated largely in an unregulated environment for a long time. MFBs have to practically comply with SBP regulations like retail banks, which is good in the long run but increases costs for the new institutions. That leaves less capital to create network and open branches, to lend and do business. The market is there - there are borrowers who need money. The success stories are there. Margins are also usually higher in small scale businesses. It works for the micro borrowers, which is why there are repeat customers in the system. Branchless banking is going to help here, by addressing the issues of size and scale. Valuable lessons have been learnt over last 10 years. Regulations have improved and are more supportive now. Going forward, I see a lot of progress taking place. More sponsors will come. The problem that remains is the economy of scale. BRR: Please tell us about Waseela Bank's organisation, and its recent entry into the BB sector? GA: There are two major businesses Waseela has entered. First and foremost, Waseela is a Microfinance bank, and it has to do core micro business. It has to offer Microfinance products of savings deposits and lending, and other products that cater to the needs of the unbanked market. Our target is going to be on small and micro businesses in the lower tier of the market, which are capable to generate business and employment. Our bank branch network will expand to 23 by the end of 2013. Right now, we have four branches, located in Islamabad, Lahore, Karachi and Lodhran. We are looking to expand our branch network to 50 in three years. We are now opening Smart Branches at Mobilink's own Customer Service Centres, which will offer banking-related services like savings and insurance to telco customers. In the communities where we see growth potential for Microfinance lending, we will open community centres. We will offer deposits, insurance and individual micro lending through this setup. The next segment is branchless banking. It is obviously a much larger channel. We plan to have 50,000 BB agents in four to five years. Mobilink will act as Waseela's super agent, and all other agents will become sub-agents.

Waseela is responsible for the entire BB services. The business, sales and marketing are being done jointly with Mobilink. About the services under our BB setup, simple services like utility bills payment, mobile top-up and funds transfer are being offered first. We have close to 25 financial services product that we can offer to the market under our BB service. The service portfolio on the menu includes bundled products such as life and health insurance. But their rollout will take time, coming one after the other. Lending is something we cannot do through the BB agents alone - for that we need our Microfinance setup. Our micro borrowers can be facilitated through the BB setup - eg they can deposit their loan instalments at any of our agent locations. BRR: Mobicash, Waseela's BB service, has now been launched in a full-scale mode. How has been the response so far? GA: The market has responded very enthusiastically. We have over 3,500 agents registered already and on boarding of more agents is being done aggressively. Transaction value and number are picking up rapidly. It seems there was a huge market waiting for mobile financial services. We are extremely excited about scaling up our operations and, Inshallah, 2013 will be a remarkable year in this regard. BRR: How do you see the role of branchless banking service in addressing the chronic issue of financial exclusion in Pakistan? GA: Banks have a narrow outreach in Pakistan. Statistics show that banking accounts are no more than 30 million, and the number of unique accounts is not more than 20 million. Total number of the borrowers has been reduced to 3.3 million, with business borrowers falling below the half a million mark seen some years ago. This is the scale of financial access to a population of 180 million, after a lapse of 60-65 years in this country. This is the combined achievement of the conventional banking sector. As opposed to this, telcos have brought a revolution. The number of active Sims minus the number of bank accounts is a huge market. Approximately 100 million people have a cellphone but they don't bank. Providing financial services to this customer base changes the game altogether. The idea is to have a bank account for everyone who has a cellphone. Any transaction that can be done through a bank can be done through a mobile account. Telenor jumped first, while others have been figuring out. Mobilink has now sponsored, through its parent firm Orascom Telecom, the Waseela Microfinance Bank. Ufone has now acquired Rozgar Bank which they are up scaling now. Zong has collaborated with Askari Bank. In four to five years time, the restricted financial access landscape would change. BRR: How will the BB service providers be able to bring about this transformation? GA: Success of this segment lies in that the BB service coverage goes to 80-90 percent of the cellular subscribers. It is not that difficult. Banking has been simplified to the maximum possible level in this channel. There is no need for detailed documentation, or references - only the CNIC would need to be shown to the nearest retailer or BB agent. This model addresses the fears and inhibitions associated with the bank branches of marble and granite. The easiest and simplest transactions - in terms of processing, IT and KYC, etc - have been rolled out in the beginning, which include collection of utility bills and making small funds transfers. When we talk about savings or credit products, the agent system needs to be more aware and trained for the responsibility of keeping public funds. Such capacity is built over time. Telcos have also taken their time understanding, developing and handling operational complexities related to financial products. Now things are changing, and products like mobile wallets are here. However, it is not just one or two products; it has to be a complete suite of financial services. Every quarter now there is double-digit growth in every aspect of BB services. Product development is being actively worked on now. This includes the introduction of saving product through mobile wallets. Just imagine, saving a small amount of Rs 5000 can translate into huge numbers if tens of millions of people start using mobile wallets to save. The

issue for most of the population is that they have limited access to savings platforms. They have no avenue to enter into the banking system. For instance, so much liquidity has been locked into gold for so many decades now. People do have money, but they have very little choice other than to save in kind. BRR: What are your thoughts on building a payment ecosystem around BB services? GA: As long as mobile wallet doesn't become a currency and become acceptable at vendor outlets, the momentum will not be built and BB services will not be very successful. Problems are different here. The fears of documentation and taxation on actual sales hold the retailers back from accepting payment options (like mobile wallets) that have to comply with certain regulations. Under-invoicing is another thing that's holding businesses back. Acceptance of this channel is happening, but on a small scale. Once people understand this utility, they will use it. Some merchants accept this option because they have realised this will grow their business. The payment ecosystem is something which the BB service providers will have to champion. This is in prime interest of the operators if it becomes a currency. We expect the SBP to work with FBR on this issue. ***Copyright Business Recorder, 2013***