

Political Economy of Financial Technology in Pakistan

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Relevance of Fintech for Pakistan

- Large Population: 224 Million (37% Urban – 63% Rural)
- Limited financial services coverage (170 million excluded)
- High Population spread: 282/km²

Exclusion dynamics:

Lack of focus to include financial services for low income / remote locations (most disadvantaged) groups.

a. High Operations Cost to include widely distributed population through traditional financial services.

b. Low transaction volume income groups pose limited value for investment and higher risk.

Fintech can be a solution to

provide limited variable cost based financial services through disruptive innovation and creating economies of scale in transaction value.



Study Objectives

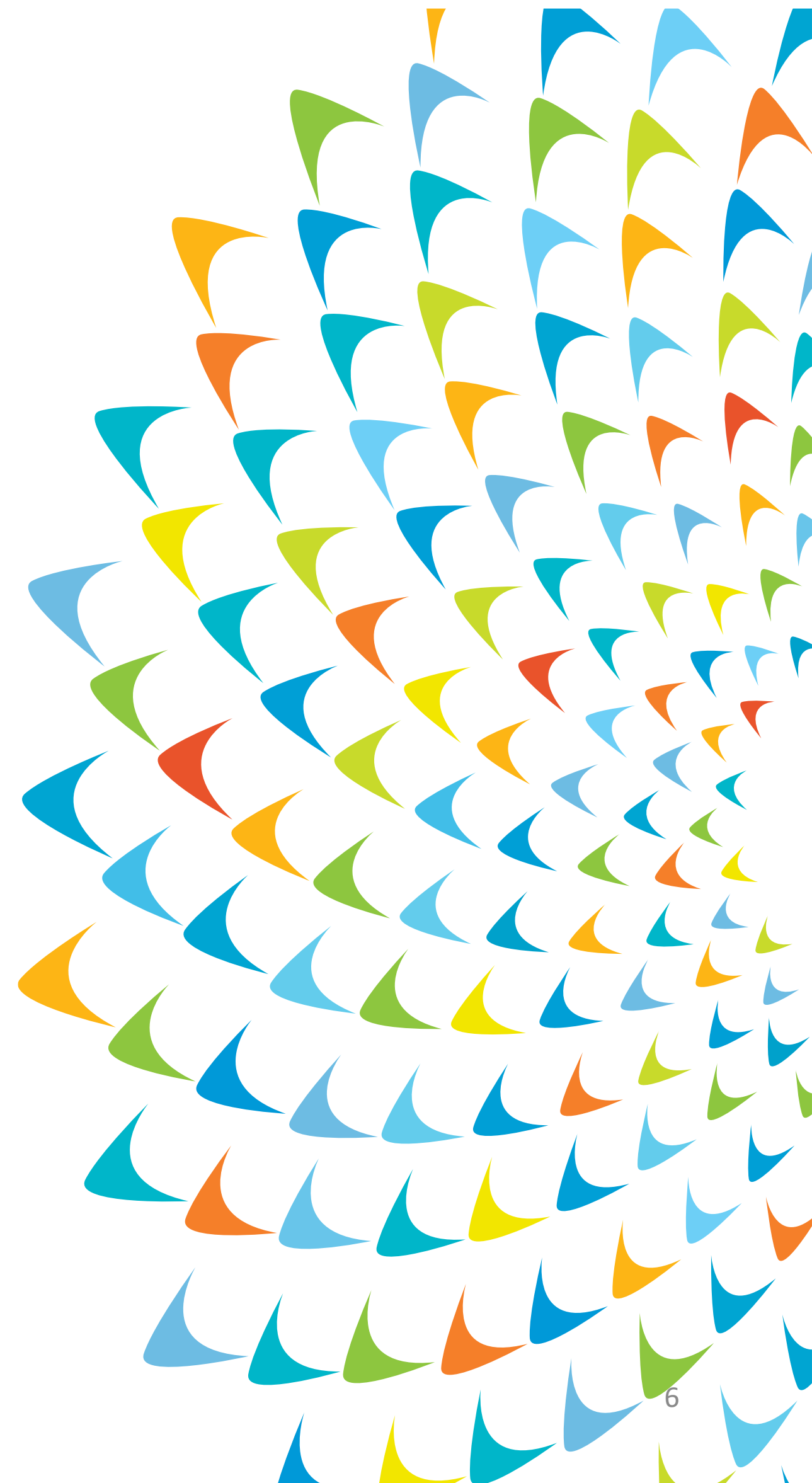
- Mapping key FinTech stakeholders and their roles and responsibilities.
- Identifying ownership of FinTech sector echo-system including governance and operations.
- Exploring the evolution of FinTech sector by assessing four pillars of FinTech indicators
 - o Financial sector
 - o Technology infrastructure
 - o Capabilities of relevant stakeholders.
 - o Regulatory framework
 - o Value of regional cooperation and shared learning
- Vision of the key political leadership for growth of FinTech in Pakistan.
- Inform future interventions to foster FinTech growth in Pakistan.



Study Participants



Key Findings





Pakistan Economic Outlook - FY 2022

Gross Domestic Product (GDP) growth of 5.97% (4.40% in agriculture 7.19% in industry, Services 58%).

Investment in fixed capital (IFC)

- Total revenue increased by 17.7% Rs 5,874.2 billion (8.8% of GDP).
- Fixed investment loans expansion by Rs 366.7 billion in FY 2022
- Net Domestic Assets (NDA) banking system increased by Rs. 3975.2 billion.
- Growth in exports of goods and services are by 39%. IT exports \$1.948 billion 29.26%
- Import stood by 59.8US\$ FY2022 as compared to 43.0 US\$ in FY2021.
- Investment (FDI & local) in the telecom sector during FY2022 crossed \$930.1 million.
- In FY2022, the Gross Fixed Capital Formation (GFCF) stood at Rs 8,992 billion -25% growth.

Consumer market experience

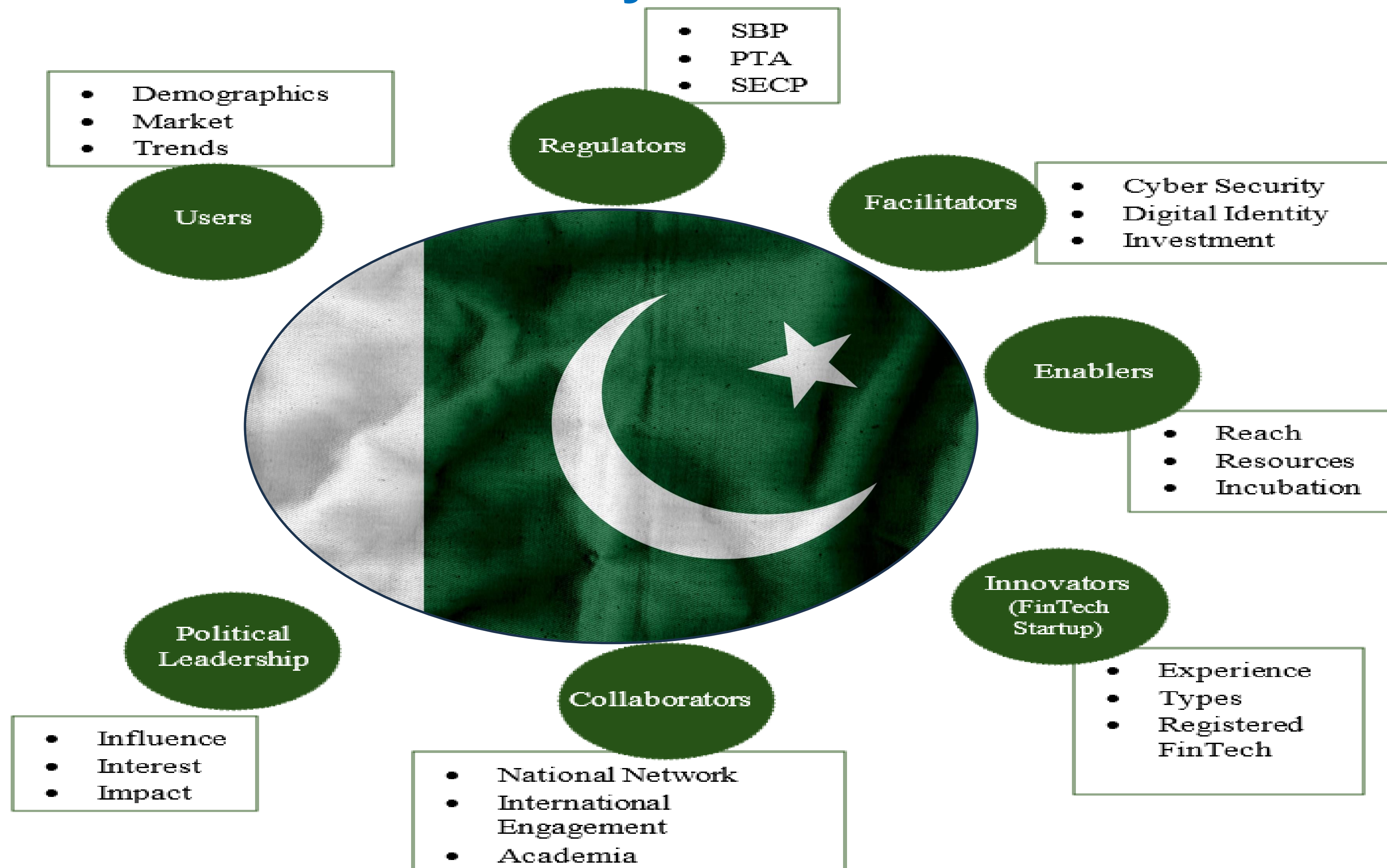
- Private sector credit - growth of 17.05%. Loans to private sector businesses increased (63.4%).
- Sectors which posted higher credit expansion included Manufacturing of Textile and food products.
- Information and Communication sector observed expansion of Rs 66.8 billion

Inflation

- ***Consumer Price Index (CPI) inflation-Urban:*** Urban Food 15.6% and Non-Food 10.2%
- ***Consumer Price Index (CPI) inflation-Rural:*** Rural Food 17.7% and Non-Food 12.8%.
- ***Pakistan's reserve money*** grew by 13.5 percent (Rs 1,171.0 billion).



Fintech Ecosystem in Pakistan





Fintech Ecosystem in Pakistan

FinTech Regulators:

- State Bank of Pakistan (SBP)
- Securities Exchange Commission of Pakistan (SECP)
- Pakistan Telecommunications Authority (PTA)

Facilitators - Allied FinTech Services

- Digital Identify: National Database and Regulation Authority (NADRA)
- Investment Promotion: Special Technology Zones Authority (STZA)
- Consumer Protection: Banking Ombudsman
- Legal and Policy frameworks: Ministry of IT and Telecom (MoITT)
- Legal and Policy frameworks: Ministry of Planning and Development (MoPD):
- Safeguarding Digital Financial Landscape: Federal Investigating Agency (FIA)
- Financial Security: Financial Monitoring Unit (FMU)

• Enablers – Private Sector Contributors

- Reach: Mobile Network Operators (MNOs):
- Resources: Investors
- Resourcing: Incubators:
- Reliance: Vendors for B2B Services for FinTech



Pakistan Legal Framework for Fintech

- The Foreign Exchange Regulations Act (FERA), 1947
- State Bank Of Pakistan Act, 1956
- The Banking Companies Ordinance, 1962
- The Electronic Transactions Ordinance, 2002
- The Non-Banking Finance Companies, (Establishment and Regulation) Rules 2003
- The Payment Systems And Electronic Fund Transfers Act, 2007
 - SBP, Rules for Payments Systems Operators (PSO) and Payment Systems Providers (PSR)
 - SBP, Payment System Designation Framework
 - SBP Regulations for Electronic Money Institutions (EMIs)
- The Anti-Money Laundering Act, 2010
- State Bank of Pakistan - National Financial Inclusion Strategy 2015
- SBP, Branchless Banking Regulations 2016
- Prevention of Electronic Crimes Act 2016
- The Section 42 Companies Act, 2017
- SECP Sandbox Regulatory Sandbox guidelines 2019
- E-Commerce policy of Pakistan 2019
- SBP Regulations for Secured Transactions Registry Regulations, 2020
- Digital Bank Regulatory Framework Exposure Draft*, 2021

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Pakistan Legal Framework for Fintech

2001-2005

- Foundational legal framework for banking 2001
- Launch of DSL in Pakistan 2001
- Electronic Transactions Ordinance 2002
- Know Your Customer (KYC) Guidelines 2003
- Broadband Policy 2004
- Mobile Cellular Policy 2004
- Universal Service Fund (USF) 2006

2006-2010

- Payment system and electronic fund transfer Act 2007
- Branchless banking regulations 2008
- SECP E-service portal 2008
- Establishment of PRISM 2008
- Anti-Money Laundering and Countering Financing of Terrorism Regulations 2010

2011-2015

- IBAN implementation 2012
- Centralized organization for KYC 2013
- Rules of PSOs/PSPs 2014
- Pakistan Vision 2025
- National Financial Inclusion Strategy (NFIS) 2015
- Pakistan Telecommunication policy 2015
- Credit Bureau Act 2015
- Credit Rating Agency 2015
- Financial Institutions Secured Transactions Act 2016
- Prevention of Electronic Crimes 2016
- Deposit Protection Corporation Act 2016

2016-2020

- Pakistan Citizen portal and sub department of PTA 2018
- Digital Pakistan Policy 2018
- Digital Pakistan Policy
- Regulations for EMI & Digital Onboarding
- Regulations for Merchant onboarding
- National Payment System Strategy (NPSS)
- FinTech Regulatory Framework
- Digital Secured Transactions Registry
- Launch of Roshan Digital Account
- Critical Telecom Data and Infrastructure Security Regulations (CTDISR)
- Consumer Support Centre

2021-2023

- Launch of Raast bulk transfers
- Customers Digital Onboarding: Digital KYC framework, 2021
- Branchless Banking Aasan Mobile Account (AMA) launch
- Special Technology. Zones Authority Act, 2021
- Launch of Complaint Management System Mobile App
- Banking on Equity Policy
- National Cyber Security Policy
- Strategic Plan for Islamic Banking Industry 2021-25
- Electronic Initial Public Offering (E-IPO)
- Licensing and Regulatory frameworks for Digital banks
- Launch of Raast P2P Transfers
- Fixed Broadband QoS Regulations Updated
- National Gender Policy Framework
- PTA Cyber Security Framework
- Launch of Digital AMC initiative
- Online Only Brokers

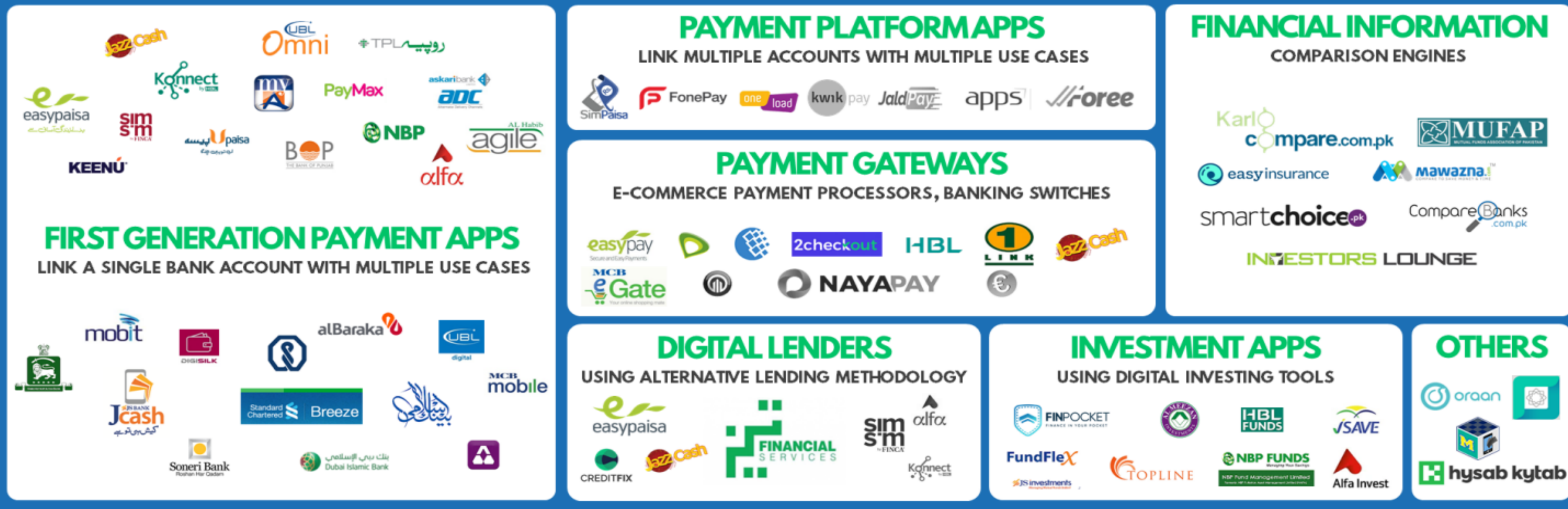


Pakistan Fintech Landscape

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FINTECH APPLICATIONS IN PAKISTAN

BANKS, MFBS, NBFCs, PRIVATE COMPANIES, AND START-UPS

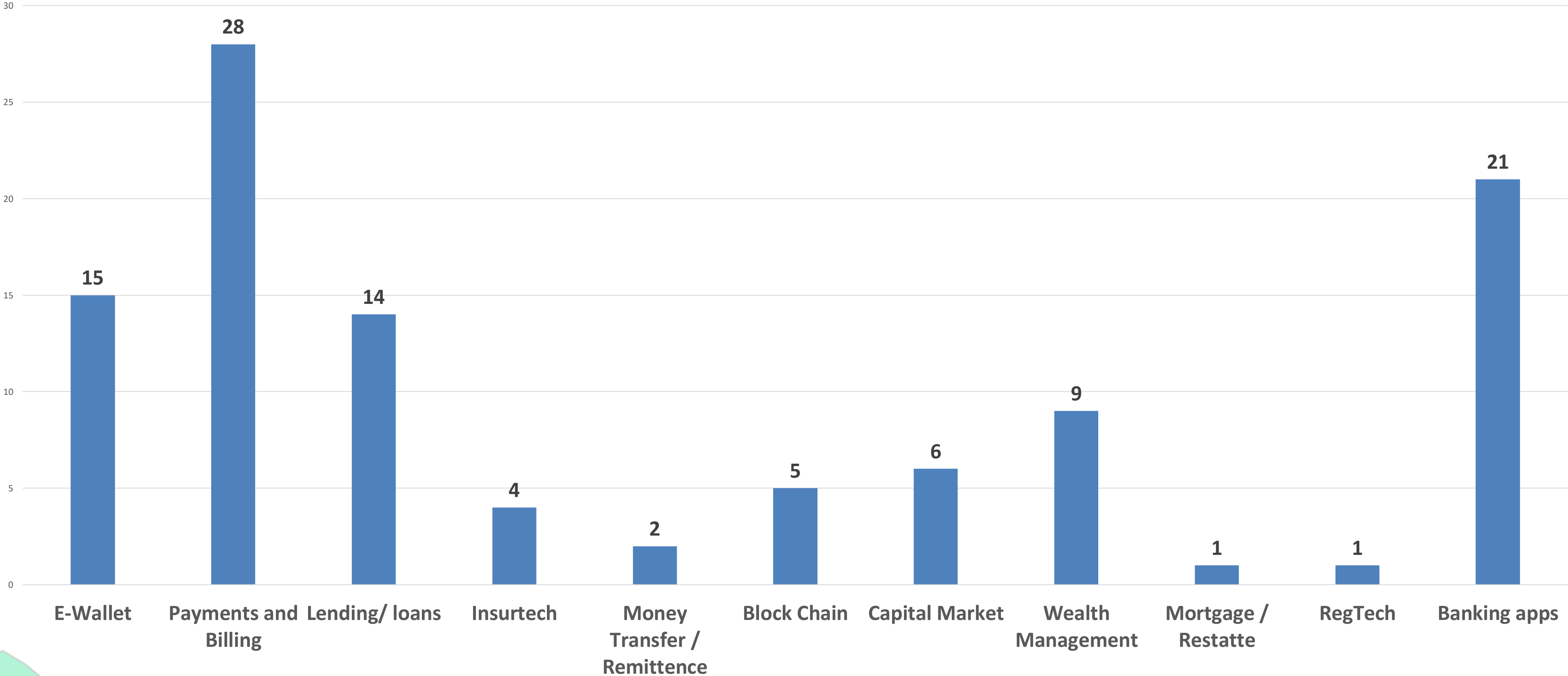


Source: <https://www.tezfinancialservices.pk/tfs/FinTech.php>





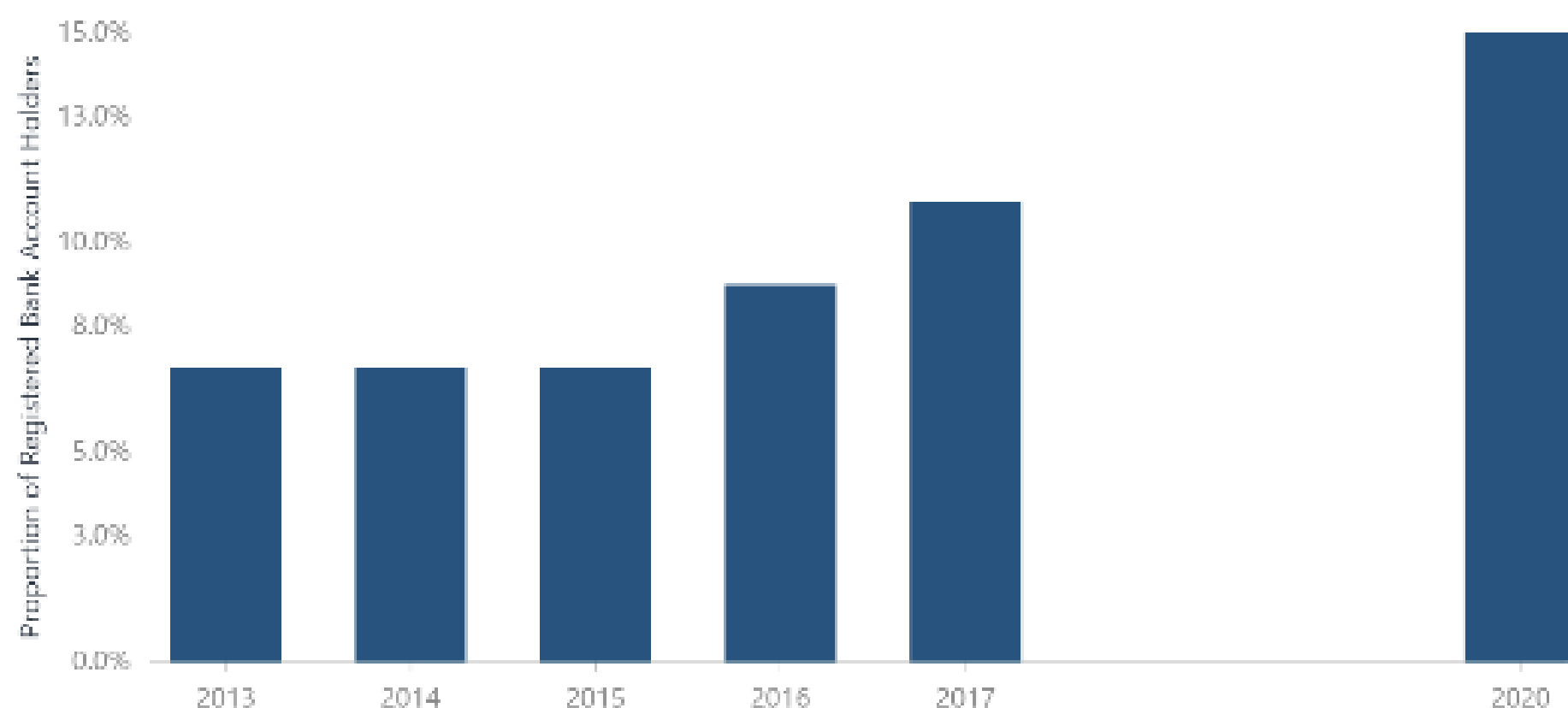
Pakistan Fintech Applications (70 reviewed)





Pillar I: Finance

Account Registration trends:



According to data released by SBP, the number of bank accounts in Pakistan increased to 6.66 percent in March 2022. However, when analyzed with other parameters such as an increase in the population, the SBP report mentions population growth rate for the same period was 7.07 percent indicating a need for a more robust effort to get the adult population on board for active bank accounts.

Ratio of Male and Female Accounts:

Global economy ranking 2021:

- Only 21% of Pakistan's population holds bank accounts.
- Bank accounts held by women stand at only 14 million.
- Positive trend in female mobile money accounts with a Compound Annual Growth Rate (CAGR) of 25.36% from 2018 to 2021.
- Despite initiatives, the gender gap for active bank accounts is growing.
- State Bank of Pakistan (SBP) aims to achieve around 25 million active female bank accounts by 2024.

GFS report 2021:

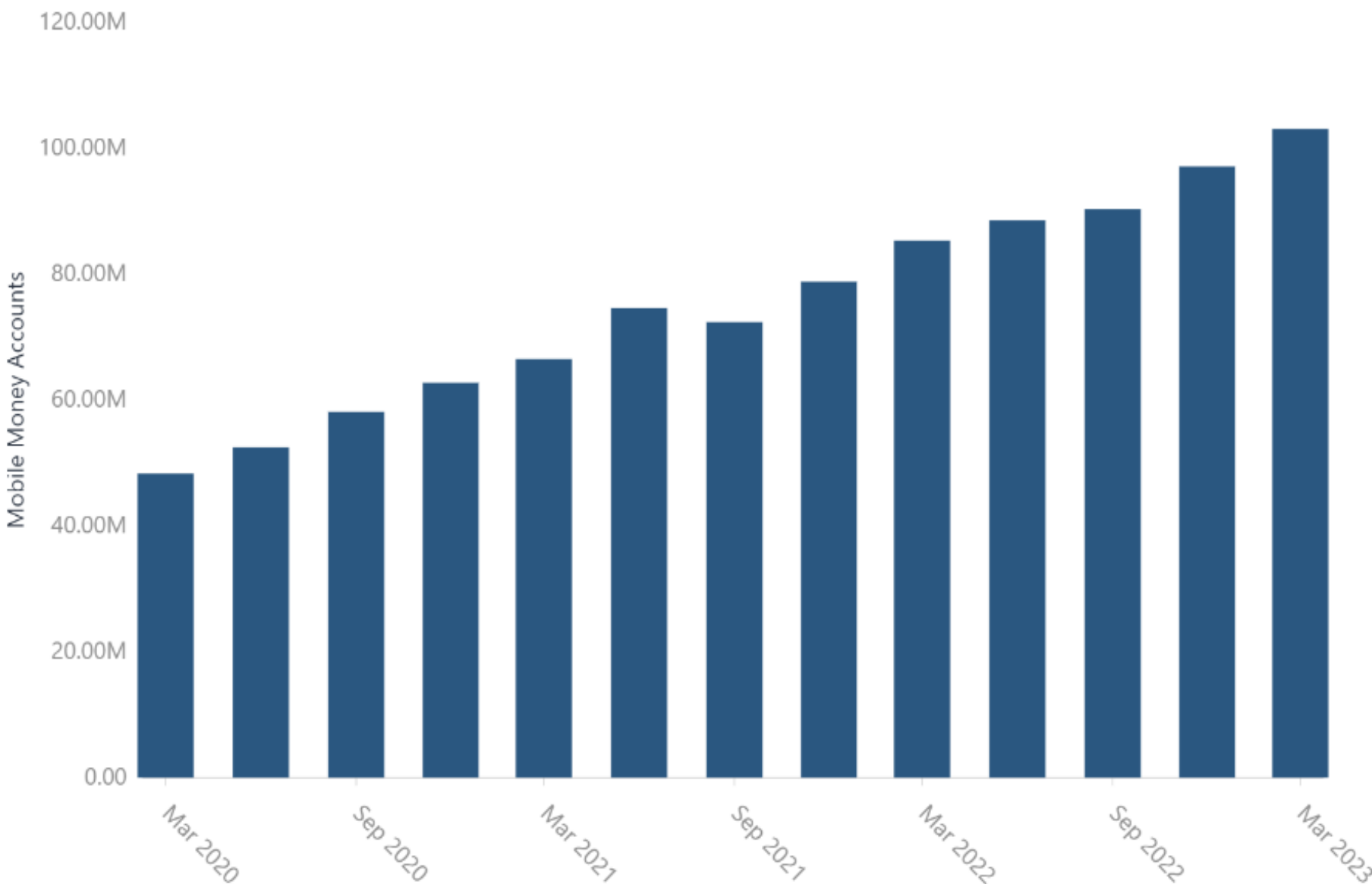
- Women often excluded from formal banking services due to various reasons:
 - Lack of official identification.
 - Absence of mobile phones.
 - Family restrictions on phone ownership.
 - Lack of technology knowledge.
 - Lower financial capability.
- Women in Pakistan are half as likely as men to own a mobile phone.
- Financial inclusion among women increased from 6.28% to 11.48%.
- Financial inclusion among men decreased from 29% in 2017 to 20.90% in 2021 in Pakistan





Pillar I: Finance

Mobile Money Accounts



[Mobile Money Accounts \(karandaaz.com.pk\)](https://karandaaz.com.pk)

Value of Mobile Money Transactions



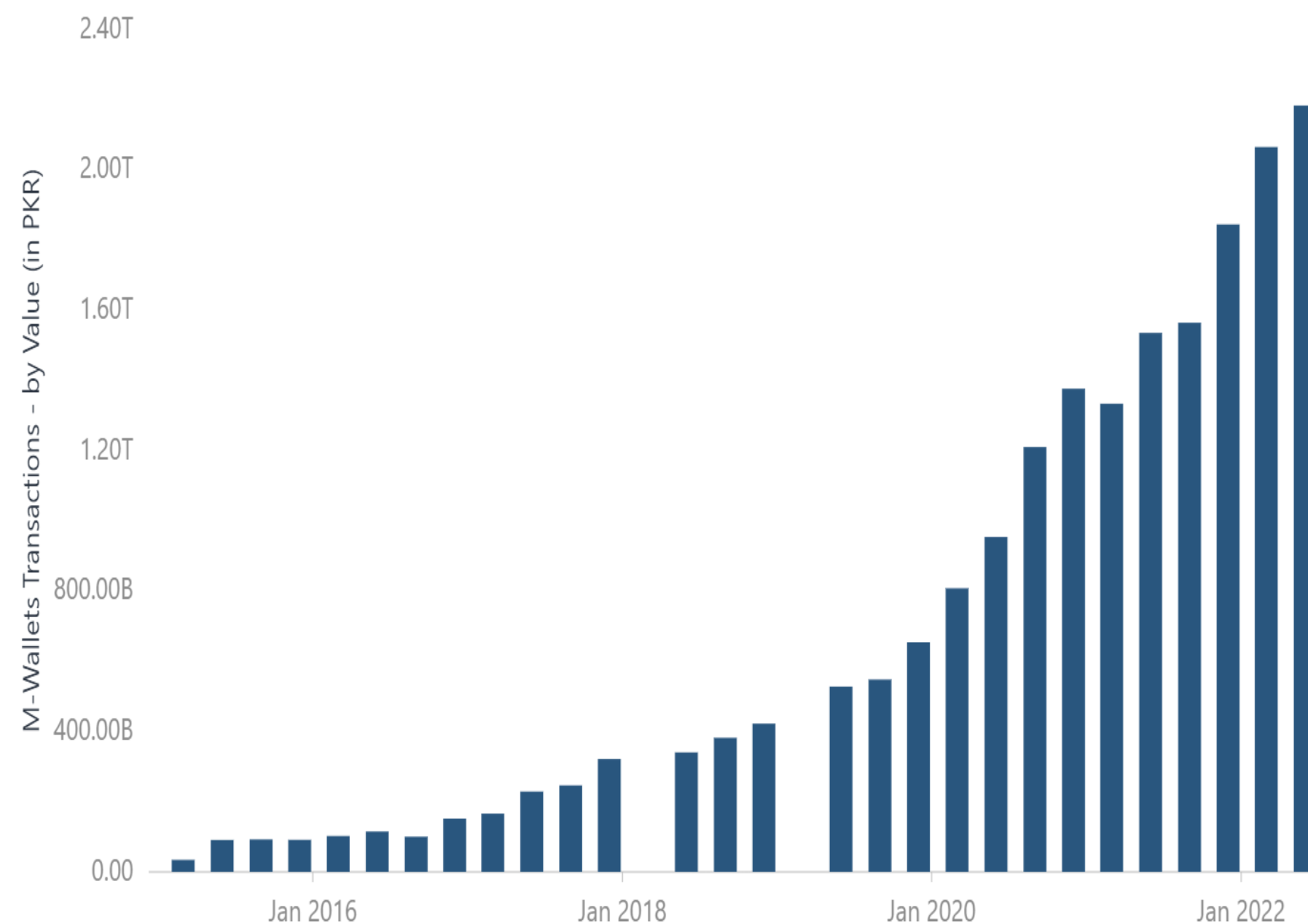
The quarterly transaction value of mobile money transactions surged from 1.29 trillion rupees to 4.23 trillion rupees in 2023, marking a threefold growth in three years, as per SBP's Quarterly Branchless Banking Statistics Reports.





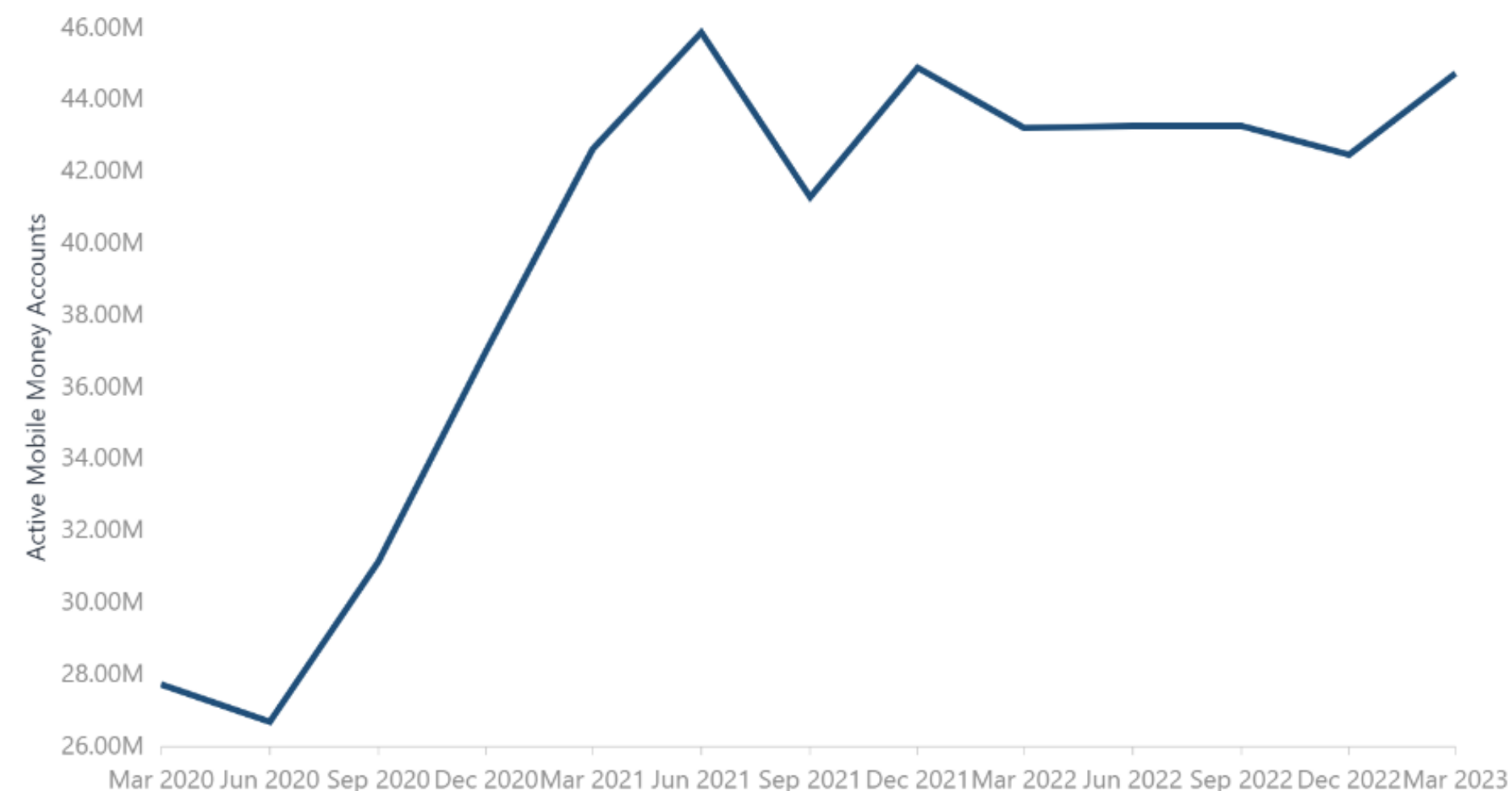
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Mobile Wallets Growth by Volume



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Active Mobile Money Accounts

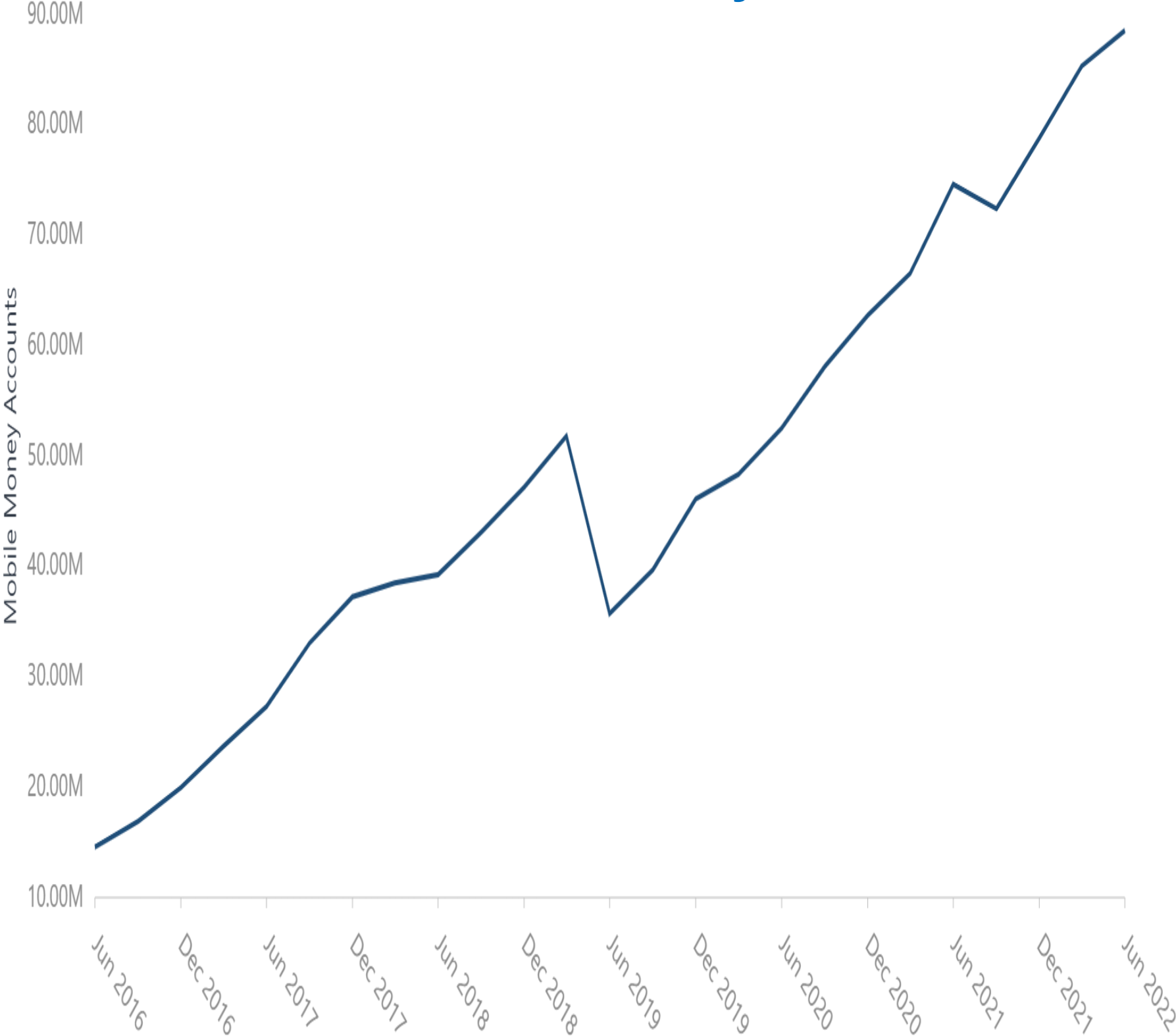


The graph depicts a 70% rise in active accounts, from 26 million to 43 million, between 2020 and March 2023. Various indicators, including average daily mobile money transaction value, male and female mobile money accounts, net deposits, and average deposits per account, also showed increases over the past three years.



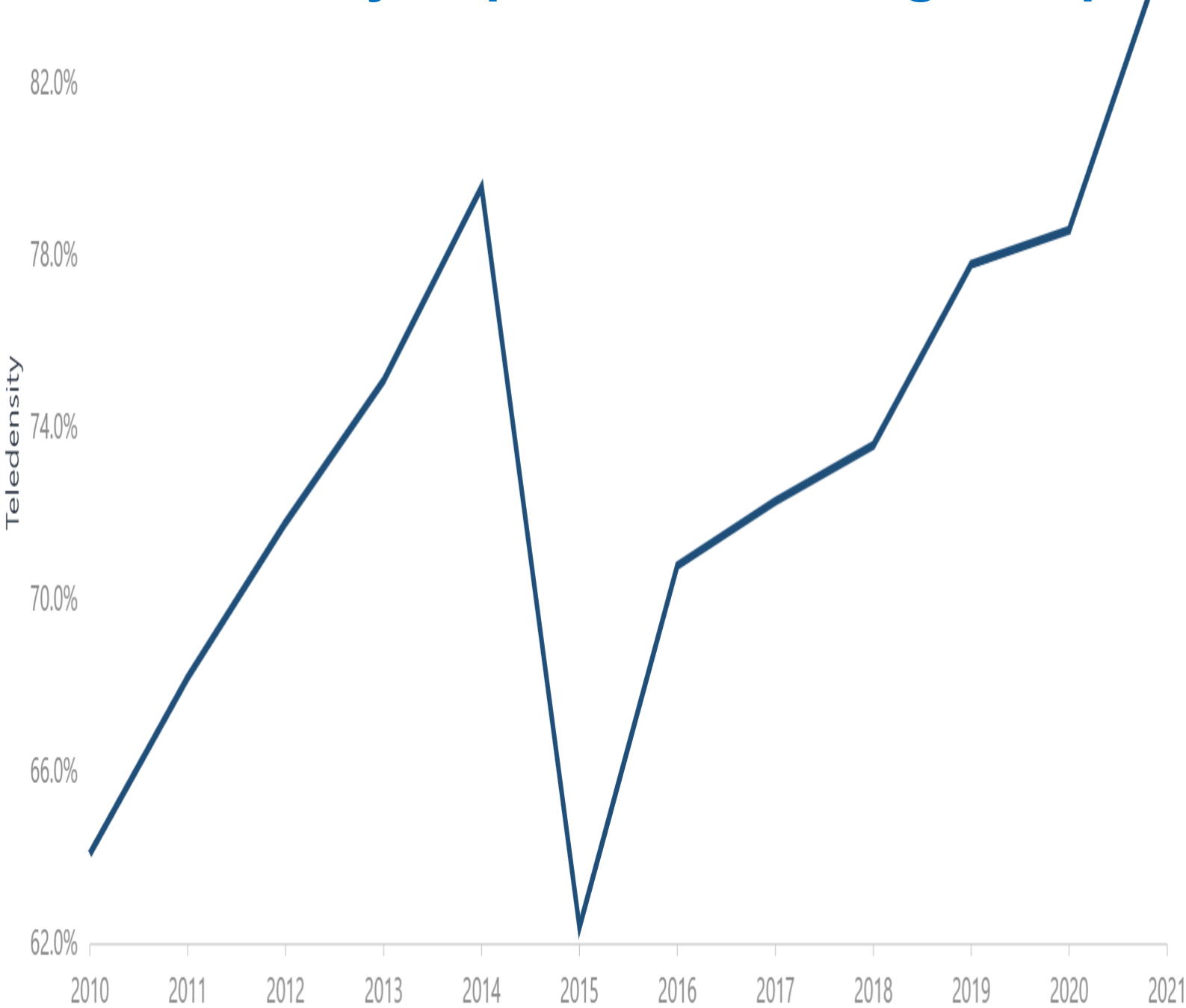
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Mobile Wallets Growth by Account



[Mobile Money Accounts \(karandaaz.com.pk\)](https://karandaaz.com.pk)

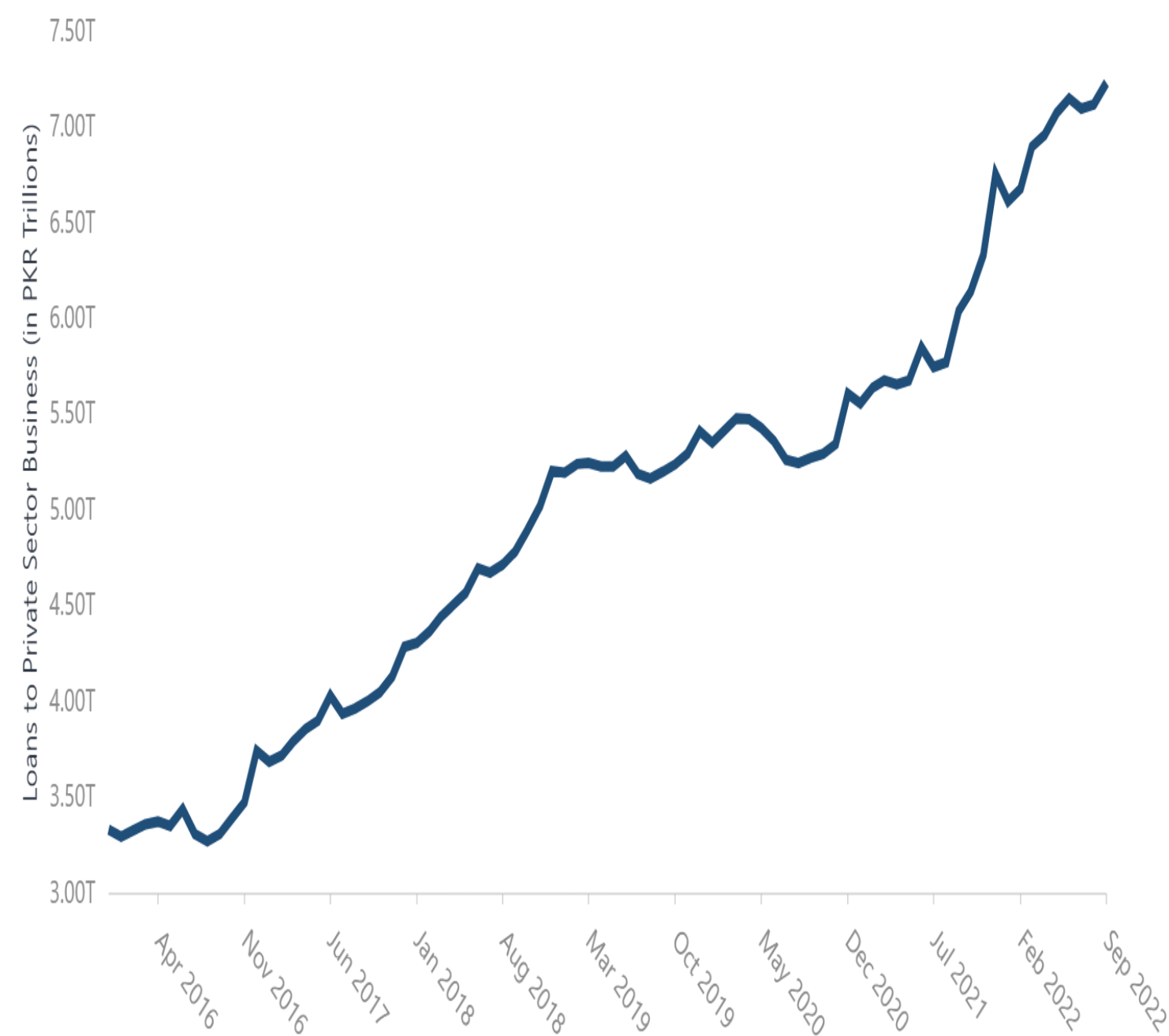
Tele-density Population Coverage Proportion





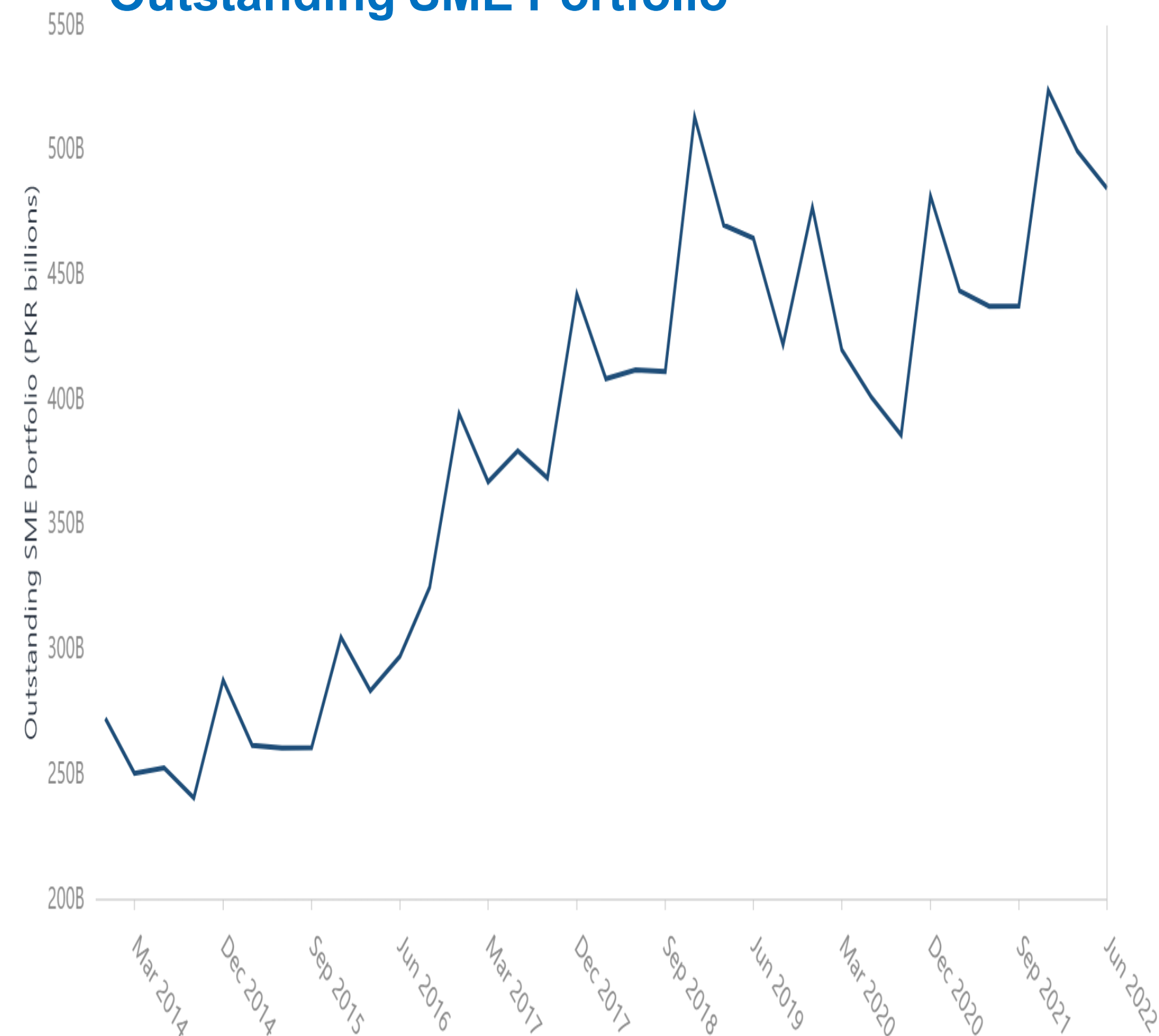
Pillar I: Finance

Loan to Private Sector Business



[Mobile Money Accounts \(karandaaz.com.pk\)](https://karandaaz.com.pk)

Outstanding SME Portfolio





Pillar I: Finance

Wages Received in Financial Account

According to the Financial Inclusion Survey 2022:

- Only 19% of the adult population in Pakistan have bank accounts.
- Among them, only 27% use bank accounts to receive wages.
- Reasons for low rate of receiving wages in formal institution (FI) accounts:
 - Low financial literacy.
 - Only 2% awareness regarding electronic money institutions (EMIs).
 - Some individuals don't feel the need or lack funds to open bank or mobile money accounts.
- Factors influencing bank account usage for wages:
 - Education level, income level, and location are significant.
 - Higher education and income correlate with higher likelihood of having bank accounts for wages.
 - Urban residents typically have better access to financial services and are more likely to have bank accounts for wages compared to rural residents.

In Pakistan, the majority of the population is employed in the informal sector, leading to lower rates of bank account ownership for wage purposes compared to formal sector employment.



Pillar I: Finance

Own Debit or Credit Card:

- In Pakistan, cash remains the preferred payment method despite efforts to promote digital payments through government policies and increased mobile phone usage.
- Challenges such as limited ATM access in rural areas, taxes on card transactions, and merchants' taxes hinder the widespread adoption of debit or credit cards.

Online Utility Bill Payment Service Providers:

According to K-FIS data:

- In 2017, 37 million digital utility bill payment transactions were recorded.
- By 2019, the number surged to 86 million digitally completed transactions.
- Mobile wallets emerged as the most preferred channel for utility bill payments, although mobile apps and internet banking were also utilized.

Quarterly Branchless Banking Statistics Report:

- Over the past 5 years (Dec 2017 to Dec 2022):
- Mobile wallet transactions by volume increased 8.5 times, from PKR 321 billion to PKR 2.73 trillion.
- The number of transactions increased 7 times, from PKR 120 million to PKR 814 million.



Pillar II: Technology Infrastructure

194 M	Mobile Phone Subscribers	88%	Tele density
124 M	M- Broadband Subscribers	56%	Broadband Penetration
8970 PB	Mobile Usage	Data 56%	Smart Phone Users

Internet users

As per the PTA’s annual Report 2022, Pakistan has about 194 million mobile phone subscribers (landline excluded) providing a teledensity of 88%.

Mobile broadband subscriptions

According to the PTA’s Annual Report 2022:

- Pakistan has 124 million mobile broadband subscribers, indicating a 56% penetration rate in the population.
- 56% of subscribers utilize smartphones.
- Users consumed 8970 petabytes of internet by September 2022.



Pillar II: Technology Infrastructure

- **Challenges for Receiving Payments Digitally:**
 - **Limited interoperability:** Financial institutions struggle to connect due to lacking central infrastructure for digital payment services.
 - **High cost of digital payments:** End users face high fees, including a 1.5% PoS charge and 16% FED tax, making digital payments inaccessible, especially for small merchants. In March 2023, SBP eliminated the 1.5% MDR for PoS transactions and revised the IRF.
 - **Poor user experience:** Complex digital payment processes and limited merchant acceptance, particularly in remote areas, hinder widespread digital transactions.
 - **Lack of security:** Current digital payment types lack sufficient data protection and authentication measures. PTA introduced CTDISR in 2020 for telecom network security and collaborated with MoITT on the Cyber Security Policy in 2021.
 - **Other issues:** Complicated regulations and difficulties in obtaining licenses hinder digital finance adoption, but SBP and regulators aim to address these concerns through experience learning and feedback adaptation.



Pillar III: Capabilities

Bali 12 policy elements for FinTech	Possible translation in Pakistan Context	Current Status
Embrace the promise of FinTech	Use of regulatory sandbox, innovation hubs	Sandbox regulatory Established innovation hubs and technology parts
Enable new technologies to enhance financial services provision	Allow technologies to be tested in Sandbox	SBP has launched three cohorts under the FinTech regulatory sandbox to allow the testing of new business models and financial products
Reinforce competition and commitment to open, free, and contestable markets	Different pricing for different utility-type services	Improvements are under consideration
Foster FinTech to promote financial inclusion and develop financial markets	Relaxed capital requirements for FinTech licensing	Improvements are under consideration
Monitor development closely to deepen understanding of evolving financial systems	Frequent meetings, and forums with stakeholders	So far FinTech networks are limited in Pakistan. main networks are Pakistan FinTech Network (PFN) and Pakistan Microfinance Network (PMN)
Adapt regulatory framework and supervisory practices for orderly development and stability of the financial systems	A FinTech supportive approach for regulations by using principles and functional type regulations.	At present no FinTech-specific regulation exists however, SBP and SECP are actively developing frameworks and policies to support the digital economy.



Pillar III: Capabilities

Bali 12 policy elements for FinTech	Possible translation in Pakistan Context	Current Status
Safeguard the integrity of the financial system	Use of KYC utility	Improvements are under consideration
Modernize legal frameworks to provide an enabling legal landscape	A FinTech supportive approach for regulations by using principles and functional type regulations.	At present no FinTech-specific regulation exists however, SBP and SECP are actively developing frameworks and policies to support the digital economy.
Ensure the stability of domestic monetary and financial systems	Compliance with FATF recommendations	AML Improvements are under consideration
Develop robust financial and data infrastructure to sustain FinTech benefits	Cloud computing and moving away from the use of data restrictions	Still require efforts to enable FinTech industry growth
Encourage international cooperation and information sharing	Moving away from data restrictions	Improvements are under consideration
Enhance collective surveillance of the international monetary and financial system	Compliance with FATF recommendations	AML Improvements are under consideration



Pillar IV: Regional Collaborations

Cross-Border Collaborations in Pakistan's FinTech Sector:

PAK-China Collaboration:

- Signing of a Letter of Intent (LOI) between Shenyang Economic and Technological Development Area (Seda) of China and Special Technology Zones Authority (STZA) of Pakistan to enhance technology sector cooperation.

Pak-UAE Collaboration:

- Partnership between Euronet Pakistan and Dubai FinTech YAP to launch an Electronic Money Institution (EMI) in Pakistan.
- Strategic partnership agreement between Bank Al Habib Pakistan and UAE's Bank Mashreq offering free remittance transfers from UAE to Pakistan.

PAK-Switzerland Collaboration:

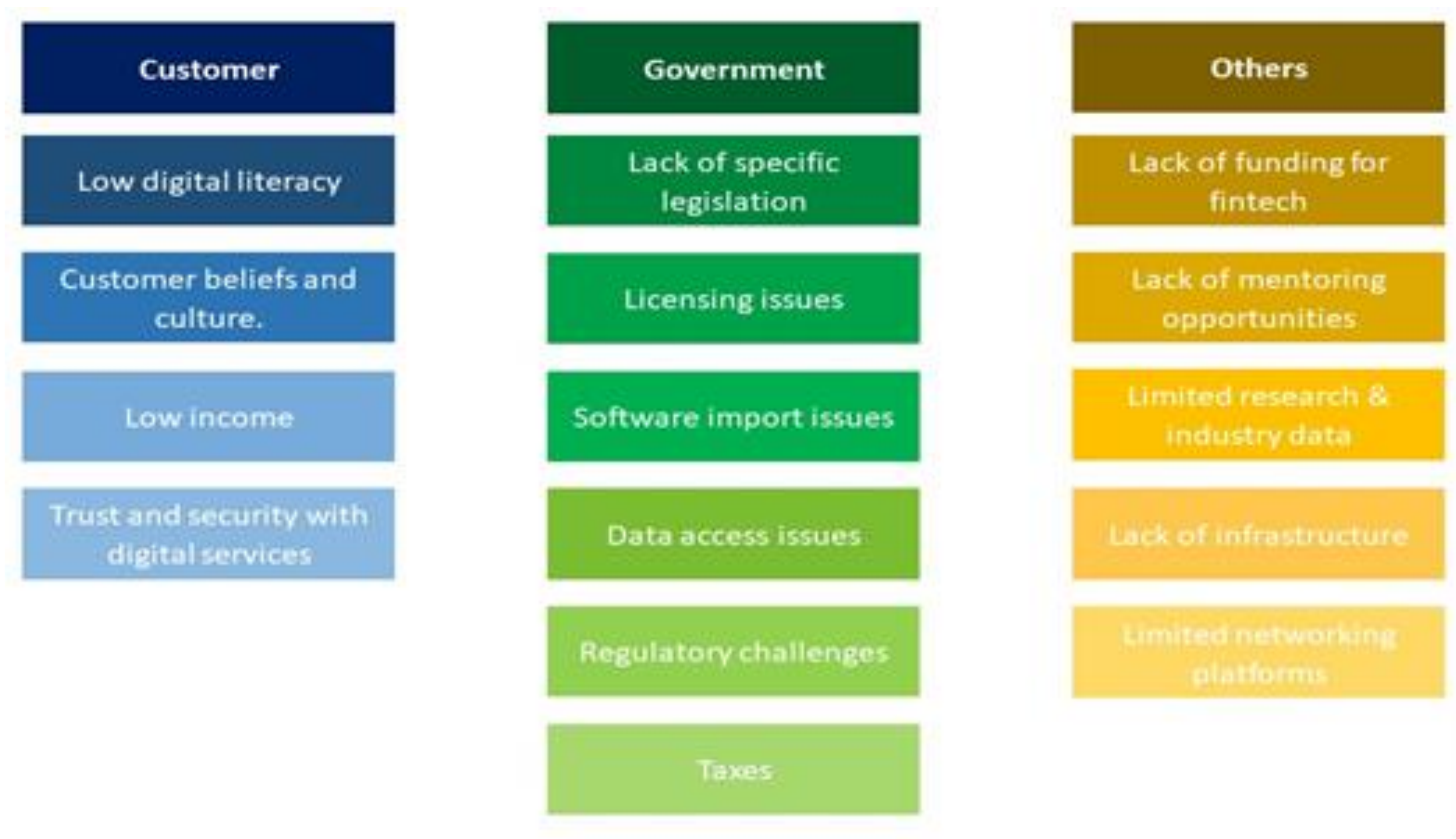
- Partnership between Pakistan-based National Data Consultants (NDC-Tech) and Switzerland company Temenos to expand market reach in various countries.

PAK-Malaysia Collaboration:

- Introduction of blockchain-based cross-border remittance service by Telenor Microfinance Bank in partnership with Valyou of Malaysia, with a focus on underbanked communities in Pakistan.



Challenges faced by FinTech Regulators and Industry in Pakistan





Opportunities for FinTech

Payments:

- Digital transactions surged during and post-COVID-19, with several FinTech operating in the payment domain.
- Initiatives include supply chain payments with Meezan Bank and Coca-Cola, contextual payments like SBP's RAAST, and OTC retail payments linked with e-commerce.
- FinTech can enhance tax collection efficiency, transparency, and compliance through mobile payments and blockchain.

International Remittance (IR):

- IR accounts for a significant portion of Pakistan's GDP, presenting opportunities for cost-effective digital IR methods.
- Infrastructure:
- NADRA's citizen database offers opportunities for FinTech.
- Warehouse receipt management framework by SBP creates avenues for digitizing agriculture sector and warehouse financing.

Investments and Savings:

- FinTech can explore avenues in mutual funds, stock exchanges, and digital ROSCAs.
- Lending:
- SME finance and microloans are key initiatives for Pakistan's FinTech growth.

Insurance:

- Low insurance sector penetration presents opportunities for FinTechs like Tez to explore the market.



Recommendations

Tailored Regulation for FinTech Firms:

- Create specific rules that fit the needs and risks of FinTech companies.
- Develop special licenses and fees to support smaller FinTech players.
- Foster collaboration among authorities to ensure fair and innovative regulation.

Promoting Financial Inclusion through FinTech Innovation:

- Simplify licensing processes and provide regulatory support for new financial products.
- Offer financial and technical assistance, such as grants and capacity-building programs, to accelerate FinTech growth.
- Tax Reforms for Promoting FinTech:
 - Clarify tax laws, reduce tax rates, and simplify tax procedures to support FinTech businesses financially.
 - Promote tax awareness and compliance to create a culture of adherence within the FinTech industry.

Capacity Building Initiatives:

- Enhance individual, institutional, and environmental capacities through academic partnerships, digital literacy programs, and specialized orientations for policymakers.
- Foster research collaborations, open data governance, and institutional strengthening for systematic growth and accountability.

• Regional Collaboration:

- Learn from neighboring countries' innovative approaches to FinTech development.
- Organize regional meetings, conferences, and conventions to encourage cross-border investments and initiatives.
- Focus on providing digital financial services to underprivileged areas to promote financial and digital inclusion.