



Fintech revolution at Pakistan's doorstep – do you know what it is?

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June 14, 2021



Pakistan's fintech revolution: Sounds cool but do you understand what it means?

In essence, it refers to technology supporting banking and financial services. Ok, well, that's a start! But what's new about this – don't we all know tellers have computers that they tap into when we deposit or take out cash from the bank.

At its simplest, it may have meant that, but in essence, the fintech we are referring to more correctly refers to all technology that helps you conduct your banking needs generally without the assistance of a person. So it could be as simple as checking your balance or transferring your funds in your telephone app.

What does it mean for Pakistanis?

Huge Deal. Seventy-seven percent of the country is still physically unbanked and not financially included due to several reasons, including that bank branches cannot cover every part of the country; at 10 branches per 100,000 adults, Pakistan's banking coverage is shallow as compared to the average of 16.38 in Asia.

That means that a large number of people do not have access to finance, and all that comes with it including, agricultural loans, tractor loans, machinery loans, car loans, mortgages, farmers insurance, and SME development is hindered by a lack of access to capital and so on.

This prevents individuals from engaging in economic activities that could change their lives and overall inhibits economic growth. According to the Access to Finance Survey, the country is still predominantly cash-based.

Only 23 percent of the adult population of Pakistan has access to formal financial services, and even less, only 16 percent of adult Pakistanis have a bank account. The Black Swan event known as Covid-19 rapidly transformed countries like Pakistan into the digital twenty-first century in the financial sector.

Banks that were plodding along and been talking about digital wallets, branchless banking were pushed into immediate action as they encouraged consumers to 'stay safe and stay home' and use their internet banking services; it acted as an extraordinary catalyst for digitization and e-commerce.

PTI government has launched a "Digital Pakistan initiative" covering all sectors, including agriculture, health care, education, trade, commerce, government services, and financial services.

Huge money that was spent under the Ehsaas program was sent as digital payments, and the government used this (government to person payments (G2P)) as an opportunity to get the previously unbanked populations into the financial sector.

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Pakistan's digitization did a logarithmic acceleration, as digital solutions became necessary, especially during the lockdown. The State Bank of Pakistan is also driving through faster change with the availability of instant payments through their Raast system.

Fintech has impacted many fields like Banking, Insurance, Loans, Personal Finance, Electric Payments, Loans, Venture Capital, and Wealth Management, to name a few. Many new startups have started in the field and have taken on established players head-on, often creating a competitive environment that benefits consumers.

According to MarketScreener, the global financial sector is expected to be worth \$26.5 trillion in 2022, and the Fintech industry is worth around 1 percent of the industry.

According to a Goldman Sachs study, it was estimated that the global fintech industry might eventually disrupt up to \$4.7 trillion of revenue from brick-and-mortar financial services. PwC estimated in 2020 that up to 28 percent of banking and payment services would be at risk of disruption due to new business models brought about by fintech.

Fintech in Pakistan

According to Pakistan Telecommunication Authority, a whopping 101 million people use the internet in Pakistan, 46% has access to broadband services and 85% of Pakistan's population has mobile connections that account to 183 million mobile subscriptions, a high penetration in the population.

Pakistan offers immense business opportunities in the payments sector for banks and other fintech entities, including startups and telcos, to capitalize on the high mobile penetration in the country by offering financial services through mobile devices, apps, and web services.

An electronic wallet could be used for various payment transactions such as receiving payments including remittances, wages, and paying bills along with phone top-ups. According to McKinsey Consulting, the cost of offering customers digital accounts can be 80-90 percent lower than using physical branches.

Neobanks hit the country several years ago once the telecom giants realized they could enter this industry and challenge the traditional banks. Neobanks are basically internet-based banks that are virtual banks that operate exclusively online without traditional physical branch networks and any of the costs attached with this.

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In Pakistan, initial entrants included the banks set up by Telenor and Jazz offering cash transfer services like EasyPaisa by Telenor, JazzCash by Jazz (a company formed after Mobilink and Warid merger) have their own microbanks which are run by USSD (Unstructured Supplementary Service Data) in the rural areas.

They have phone apps from which customers can do many kinds of banking transactions, including bill payments, cash transfers, and so on. Internationally, neobanks like N96, Revolut, Alipay, and WeChat are the leaders in the fintech sectors.

According to research by a tech firm WPP, 86 percent of neobank clients use a banking app (from any bank), and 60 percent of traditional bank clients will use a banking app. On average, a neobank customer will use their neobank app for 40 percent of interactions.

List of Authorized Electronic Money Institutions (EMIs)

Name of EMI	Products /Services	Date of Approval	Status
M/s Finja Pvt. Ltd	E-money wallet for Consumers E-money wallet for Merchants	April 09, 2020	Pilot Approval granted
M/s NayaPay Pvt. Ltd.	E-money wallet for Consumers E-money wallet for Merchants	May 14, 2020	Pilot Approval granted
M/s Wemsol Pvt. Ltd.	E-money wallet for Consumers and Merchants Payment Gateway for Consumers and Merchants	July 08, 2020	Pilot Approval granted
M/s CMPECC Ltd.	E-money wallet for Consumers E-money wallet for Merchants	November 09, 2020	Pilot Approval granted
M/s SadaTech Pakistan Pvt. Ltd.	E-money wallet for Consumers E-money wallet for Freelancers	December 14, 2020	Pilot Approval granted
M/s EP Systems	E-money wallet for Consumers E-money wallet for Merchants	January 27, 2020	In-Principle Approval granted
M/s TAG Innovation Pvt. Ltd.	E-money wallet for Consumers	October 28, 2020	In-Principle Approval granted
M/s Akhtar Fuiou Technologies Pvt. Ltd.	E-money wallet for Consumers	May 07, 2021	In-Principle Approval granted

Source: State Bank of Pakistan

According to a 2019 World Bank report, Pakistan's Digital Financial Services will see a boom reaching \$36 billion, contributing 7 percent to the GDP if a real-time retail payments gateway is introduced.

Currently, branchless banking, even with the telecom companies, has not made a big jump; as of March 2021, the average daily transactions remain around 6,604,143, and the total number of transactions during the quarter were only 594 million, with the value of transactions around Rs. 1.8 trillion.

Who will serve the unserved?

According to a 2016 World Bank report, 27.5 million Pakistani adults say that distance to a financial institution is a significant barrier to accessing financial services. The arrival of branchless banking providers into the market has added around 180,000 active agents since 2008 to the existing 100,000 bank branches, but this only slightly helps with the scarcity of financial touchpoints for the populace.

Moreover, a Karandaz report shows that banks still offer 80 percent of the existing financial services whilst serving only 15 percent of the population. Increasingly, in markets where this shortage of financial service providers exists, we see startups entering to provide this need for faster, efficient, no-frills attached payment services, especially amongst small and medium-sized businesses and unbanked individuals.

Since the introduction of Electronic Money Institute (EMI) regulations by the SBP in April 2019, several Pakistan-based startups have approached the SBP for approval—including Finja, Nayapay, Sadapay, and AFT—all are at different stages of approval from obtaining a pilot approval to an in-principle approval from the SBP.

More fintech startups and other companies are preparing to acquire EMI licenses to unlock the potential of digital financial services. The EMI license only allows fintechs to provide customers with an account with daily and monthly transactional limits.

They are not allowed to deliver any lending or savings products; companies that wish to also do that have to opt for branchless banking or apply for non-banking financial institution (NBFI) at the Securities and Exchange Commission of Pakistan (SECP).

Finja recently became the first fintech to obtain both regulatory licenses: an EMI license under the ambit of the SBP and a lending license for an NBFC (non-bank financial company) under the SECP. Not all fintechs are looking to compete with banks.

Read More: [HBL inks landmark investment in Finja, Pakistan's leading fintech startup](#)(Opens in a new browser tab).

Finja, for example, is building partnerships with banks by collaborating with them and creating lending and payment products to serve a segment they may not have targeted earlier.

Recently, HBL invested \$1.15m into Finja, stating that this would proactively reinvent the bank to become a “technology company with a banking license.” The bank noted that investment in Finja would serve two of the bank’s strategic priorities, namely, making investments into digital financial inclusion and in development finance companies involved in agriculture and SMEs.

Muhammad Aurangzeb

President & CEO
HBL



We are delighted to be investing in FINJA. Pakistan's fintech landscape has immense opportunities. At HBL we believe that by making this investment we are not only developing the Startup ecosystem, but it will also pave the way for Pakistan to play a bigger role in the fintech space globally. SME lending is the future and therefore we are investing in Finja which enjoys a first-mover advantage over the market in digitally lending to SMEs in this country.

Since April 2020, Finja has increased its digital lending portfolio by 550 percent, disbursing out over 50,000 digital loans to Micro, Small, and Medium Enterprises. There is no doubt that the SBP is keen to ensure that fintech companies help in its goal of increasing financial inclusion through new and often innovative digital payments frameworks.

The 2019 regulations provide a clear framework for EMLs looking to service the public and stipulate minimum service standards and requirements for these companies to ensure that payment services are given to consumers robustly and cost-effectively and provide a baseline for customer protection.