

INTERNATIONAL FINANCE CORPORATION

Mobile Financial Services for Microfinance Institutions: Case Study of Easypaisa and Tameer in Pakistan

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Acronyms and abbreviations

BISP	Benazir Income Support Program
CNIC	Computerized National Identity Card
FED	Federal Excise Duty
MFI	Microfinance Institution
MFS	Mobile Financial Services
MNO	Mobile Network Operator
NADRA	National Identity Card Verification
OTC	Over the counter
PMO	Project Management Office
SBP	State Bank of Pakistan

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Introduction

BACKGROUND

With over 160 live mobile financial services deployments totaling some 80 million registered customers across 72 countries, the recent growth of the global mobile money industry has generated both interest and bewilderment in the world of microfinance.

First of all interest, because an increasing number of microfinance institutions are seeing in this new development the opportunity to significantly expand their outreach while reducing their operating costs. Then bewilderment, because many are still struggling with how best to leverage mobile banking to support growth in their respective settings, with their distinct market environments and particular sets of regulations.

While many are still grappling with the issue, a few pioneers embarked on the journey in early days, implementing a variety of business models across the microfinance business process. One example is Tameer Microfinance Bank in Pakistan.

In 2008, half of Pakistan's population of over 160 million had savings; but only about 8 percent of the population was served by formal financial institutions. Clearly, Pakistan was fertile ground for financial inclusion initiatives, and mobile operators were prepared to lead the charge. In March 2008, before anything concrete was implemented, the State Bank of Pakistan (SBP) issued Branchless Banking Regulations that allowed only incumbent financial institutions to offer financial services outside traditional bank branches via alternative agent and mobile-based delivery channels. With SBP's bank-centric approach, it became evident to interested mobile operators that if they wanted to get into the financial

services business in a way that exploited their own vast distribution networks, they would need to partner with a bank.

Tameer Microfinance Bank and Telenor Pakistan had been in close consultation on these possibilities as far back as 2007. This eventually resulted in an agreement that defined the terms of their relationship and what the new partnership would be expected to deliver, both to the market and to their respective core businesses.

For some, this partnership is the story of a mobile operator taking control of a microfinance bank to drive its payment strategy in Pakistan. For others, it is the story of a visionary microfinance institution that formed an ingenious partnership with a willing mobile operator to transform its profile in Pakistan. Without venturing into this debate, this paper discusses the Tameer Microfinance Bank case in more detail in the hope of highlighting valuable lessons learned. These have value for the microfinance industry at large.

DOCUMENT PURPOSE

This document is a piece of a broader research related to the business case for mobile financial services channels in microfinance institutions, and focuses on the specific case of Tameer Microfinance Bank in Pakistan.

The document consists of three main sections:

- The Pakistani market environment—discusses Pakistan's readiness for mobile financial services based on a review of four key areas: banking infrastructure, mobile infrastructure, regulations, and unmet market demand.

- The Tameer context and Easypaisa—an overview of Tameer’s operations; the main drivers and motivations behind the Easypaisa initiative, and the operational implications for Tameer.
- Concluding thoughts—summarizes the key findings and draws a conclusion about the business case for MFS in an MFI context.

Pakistani Market Environment

The last five years have seen a dramatic increase in branchless banking deployments in Pakistan. New partnership models have emerged due to a proactive regulatory approach which places banks at the center of any MFS initiative.

As early as March 2008, the State Bank of Pakistan (SBP)—in an effort to promote financial inclusion in Pakistan—issued Branchless Banking Regulations that allowed financial institutions to offer financial services outside of traditional bank branches. The banks' initial response was tepid. Still, this SBP decision ultimately catalyzed a multitude of branchless banking developments, irremediably reshaping the Pakistani market.

This section discusses some key aspects of that market environment, and some of the implications of the SBP decision.

REGULATIONS

Since early days, the State Bank of Pakistan has supported financial inclusion in Pakistan. The main driver was the opportunity to move large volumes of informal international remittances into the formal banking sector. To do so, however, SBP had to come up with a way to allow banks to expand beyond their traditional branch structure. So they started working on new branchless banking regulations as early as 2007. A year later, before any market initiative had appeared, SBP had set out these regulations intending to shape future developments in the country.

Essentially, SBP aimed to ensure that branchless banking would be restricted to established banks; therefore SBP made having a banking license a pre-requisite

TABLE 1: Tiered structure of Branchless Banking accounts in Pakistan

Account level	Level 0	Level 1
Characteristics	Basic BB account with low KYC and low transaction limits.	Entry-level account with adequate KYC requirements commensurate with transaction limits.
Transaction limits	Rs. 15,000 per day Rs. 25,000 per month Rs. 120,000 per year	Rs. 25,000 per day Rs. 60,000 per month Rs. 500,000 per year
Maximum balance	Rs. 100,000	No limit
Account level	Level 2	Level 3
Characteristics	Top-level accounts for individuals as well as businesses, offering all BB facilities and subject to full KYC requirements.	Account specifically for merchants, businesses, banking agents, technology service providers and corporations. These accounts may also be used for various disbursements like salaries/payrolls, pensions, grants, and donations.
Transaction limits	Financial institution sets limits commensurate with client profile	

to having a branchless banking license. The application process cites three clear and well-defined requirements: (i) submission of a business model with detailed financial projections for SBP review; (ii) a request for permission to undertake a pilot project and (iii) approval for full-scale operations.

In those early days after the regulations were issued, only Tameer Microfinance Bank, UBL and Dubai Islamic Bank applied for licenses. However, when early entrants started to demonstrate the viability of new models the market noticed. New license applications began to be received.

Different types of branchless banking accounts were introduced, with proportionate 'know your customer' inputs and reduced risks. These are tiered and defined on the following page:

FINANCIAL INFRASTRUCTURE

Banking sector

Financial inclusion in Pakistan is still a work-in-progress. The country has a fairly large population, with over 190 million people; but formal financial institutions only serve about 15 percent of the population. That is less than 10 branches per 100,000 people. The unbanked still make up 85 percent of the population (an impressive 160 million), with 30 million considered to be living below the poverty line (set at 25,000 Pakistani rupees or \$232 per month).

Pakistan's banking sector, meanwhile, has undergone dramatic change since independence 66 years ago. Under the political and socio-economic conditions those beginnings, Pakistani banks faced significant resource crunches, a shortage of trained personnel and other core issues. This resulted in a very poor product portfolio and a low quality of service. Since then, however, the country has come a long way in refurbishing and restructuring its financial sector.

The State Bank of Pakistan was established in July 1948, and mandated to supervise the banking sector. As the central bank, it is responsible for monitoring the

performance of every banking company to ensure compliance with banking rules and regulations.

Between the 1950s and 1960s, the SBP encouraged the private sector to establish financial institutions in the country. Unfortunately, this led to unhealthy competition and corruption and by 1974 all of the banks as constituted then were nationalized. This sweeping move ushered in its own set of problems, such as inefficient service and slow progress.

These, and others, drove a concentrated effort to restructure Pakistan's financial sector, and make it more efficient. And as of 2011, almost 80 percent of banking assets have been held in private sector banks. Thus the market has witnessed a considerable re-privatization of the nationalized commercial banks.

At present, Pakistan's financial sector comprises commercial banks, development finance institutions, microfinance banks, non-banking finance companies (such as leasing companies, investment banks, discount houses, housing finance companies, venture capital companies, and mutual funds, among others), along with Modarabas, the stock exchange and insurance companies. In 2009, the top five banks in the country collectively held an approximately 51 percent market share. The five smallest had less than 1 percent.

Under the prevailing legislative structure, supervisory responsibilities for banks, development finance institutions, and microfinance banks (MFBs) comes under the aegis of the State Bank of Pakistan. The remaining financial institutions are monitored by other authorities, such as the Securities and Exchange Commission and Comptroller of Insurance. In total, there are five public sector banks, four specialized banks, 17 private banks, five Islamic banks, seven foreign banks, ten MFI banks / institutions and eight development finance institutions, all regulated by the SBP.

Asian Banker recently cited the country's top four banks as being: National Bank of Pakistan, Habib Bank Limited, United Bank Limited and MCB Bank Limited.

Microfinance industry

The microfinance sector consists of 18 non-banking MFIs and 11 MFI banks.

Microfinance banks have also played their part in improving the financial service offering for the masses. Although these institutions face challenges around funding, capacity building, and product innovation, some have achieved profitability. That is underscored by average annual portfolio growth of 35 percent. According to the Pakistan Economic and Social Review, the potential of the microfinance credit market ranges from 25 to 30 million borrowers. Out of this total, 2.4 million are served by microfinance banks.

For three years the microfinance industry has been relatively stagnant, however, only aggregating up to 2.4 million borrowers and four million depositors. In other words, there has been near-zero growth despite considerable effort.

A significant portion of the market (shopkeepers, plumbers, independent workers et al) with individual revenues in excess of 50,000 Pakistani rupees (\$464 per month) are not targeted by microfinance institutions because they are not officially below the poverty line.

Recent trends

In recent years, innovations in banking technologies have revolutionized the industry. Access to banking services via channels such as the Internet, ATMs, mobile phones, credit cards, debit cards have made banking much more convenient and accessible to end users. They have also delivered significant reductions in bank transactional costs.

The Telenor-Tameer Microfinance Bank mobile banking service, “Easypaisa”, is an excellent case in point in demonstrating how the new technology is being leveraged to expand reach and financial access, adding operational efficiencies along the way.

Nevertheless, a number of real needs (such as savings, financing for pilgrimages, education, the marriage of children, increasing farm output, and many others clearly identified) are not being addressed, or at least not in a satisfactory way or to a satisfactory degree.

MOBILE INFRASTRUCTURE

Pakistan’s telecom sector began as a state-owned monopoly when the Pakistan Telecommunication Authority

(the country’s first independent telecommunications regulator), and the Pakistan Telecommunications Company Ltd (PTCL), were launched in 1994. There was no competition at the time. Call rates were expensive and customer service was poor.

To improve the service, the government moved to sequentially open the market, although they ensured that PTCL was preserved to a certain extent. This transition from a regulated state-owned monopoly to a deregulated competitive structure has been a long and difficult struggle for the government.

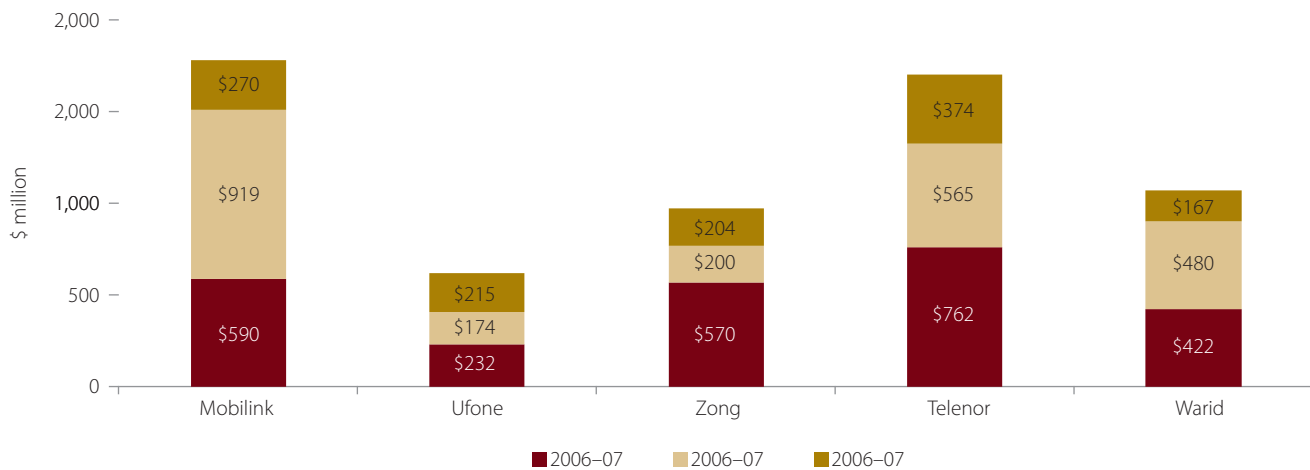
In 2003, a deregulation policy for the telecom sector was introduced. The aim was to encourage foreign company investment. The focus was on improving both domestic fixed-line communications in each region as well as the quality of long distance/international calls. In 2006, Etisalat International Pakistan, a wholly—owned subsidiary of Emirates Telecommunications Corporation, purchased a 26 percent stake in PTCL.

Opening the sector to private concerns has accelerated the industry’s growth. Figures released by the Pakistan Telecommunication Authority (PTA) for 2012 note that the total number of broadband subscribers has crossed the 2.1 million mark; and there are now more than 120 million cellular subscribers, a penetration rate of 72 percent.

This makes the sector is one of the fastest growing and most aggressive in the country. Yet it is still beset by problems, among them heavy taxation, a recent decline in foreign investment, and stricter directives regarding SIM issuance (given their perceived link to enabling terrorist activity).

Still, the mobile telecommunications sector continues to enjoy extraordinary growth with approximately 90 percent of Pakistanis now living in areas with cell phone coverage. According to the PTA, Mobilink remains the market leader with 36.7 million subscribers, followed by Telenor with 31.6 million, Ufone with 23.8 million, Zong with 20.1 million, and Warid Telecom with 12.5 million.

For many years mobile operators have made significant front-end capital investments to ensure their competitiveness in the mobile market, notwithstanding that average revenue-per-user trends have been in steady decline (see figures 1 and 2) in the country—as they have in

FIGURE 1: Comparison of investments by mobile operators in Pakistan

Source: Pakistan Telecommunications Authority, Annual Report 2008-09.

most other markets worldwide. It is not surprising, therefore, that the SBP regulations issued for branchless banking piqued the interest of the MNO industry. The critical need for a new growth path combined with the opportunity implicit in large masses of unbanked customers, has made entering the financial services space an attractive proposition.

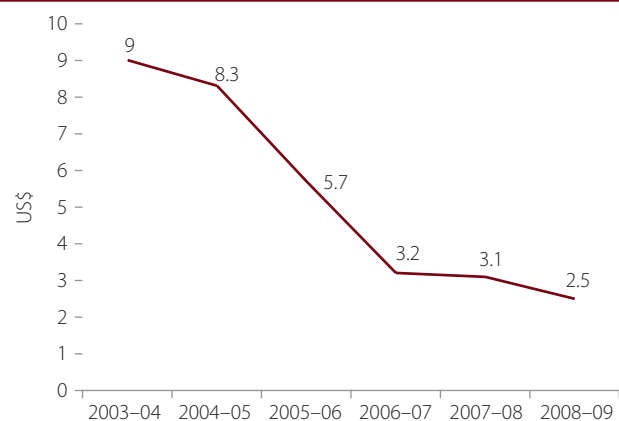
BRANCHLESS BANKING INITIATIVES

Since the SBP will only give branchless banking approvals to banks, a variety of business models have been mooted. Four mobile network operators partially or fully own microfinance banks while one mobile operator has agreed an exclusive partnership with a mid-size bank. Two other banks are pursuing telco-agnostic models and an independent third party payment service provider has just been established.

To date, there are several live branchless banking schemes in the country: three of the five mobile operators have launched their products while the remaining two are piloting some others. The bigger banks have taken much longer to engage in branchless banking. Only one bank, UBL, has already launched a telco-agnostic product,

although a few others are in the process of piloting their services. The current market leaders are Easypaisa (jointly offered by Tameer Microfinance Bank and Telenor) and Omni (a UBL product).

With this evident dynamism, the Pakistani market seems poised for further exciting developments in the branchless banking space.

FIGURE 2: Historical trend of Pakistani ARPU

Source: Pakistan Telecommunications Authority, Annual Report 2008-09.

TABLE 2: Status of branchless banking deployments in Pakistan

Deployment	Status	Services
(1) EasyPaisa: Telenor Pakistan and Tameer Microfinance Bank own and operate EasyPaisa (Telenor bought a 51% stake in Tameer Microfinance Bank).	Launched in October 2009 with OTC-only mobile wallet introduced in February 2010	Utility bill payments Domestic remittances Airtime purchase Other bill payments Salary disbursements International remittances Loan disbursements /repayments Savings product combined with insurance
(2) Omni: United Bank Limited operates this telco-agnostic service. One of the first banks to participate in government cash transfer payments, including Benazir Income Support Program (BISP)	Launched in 2010, Omni operates over 6,000 agents	Disbursing certain government payments
(3) Mobicash: Mobilink and Waseela Microfinance Bank	Launched in November 2012 with both OTC and mobile wallets. To date Mobicash is offered through 2,700 agents with 150 new agents being added per day.	Bill payments Domestic remittances Postpaid bills Airtime purchases
(4) Timepey: Zong and Askari Bank	Launched September 2013 with 2,000 agents. Askari Bank contracted to disburse salaries to 700,000 soldiers.	Utility bill payments Domestic remittances Account to account transfer Airtime purchases Disbursing army salaries/ pensions
(5) Ufone and Rozegar Microfinance Bank	Tested in Q1 2013	Planning bill payments, domestic remittances and BISP disbursements
(6) Monet, Warid and Bank Alfalah: All three companies have common ownership.	Tested in Q1 2013 Bank Alfalah disburses BISP government cash transfers	
(7) Habib Bank Limited, the largest commercial bank (40% market share) with the largest branch footprint.	Launched in Q1 2013	Disburses BISP government cash transfers
(8) MCB	Launched in Q4 2012	Disburses BISP government cash transfers

The Easypaisa Experience

Tameer Microfinance Bank is the largest microfinance bank in Pakistan. It was incorporated in August 2005 to provide microfinance services and related financial services to the less privileged and the unbanked segments of the society.

Originally, Tameer operated out of regular bank branches, offering loans in greater Karachi because the city was believed to have great potential for microfinance services. The firm's initial business plan, based on a feasibility study, cited 200 branches being built over a five-year period, with 25 branches earmarked for the first year alone. Accordingly, Tameer started with its first six branches and adopted an aggressive sales strategy. In 2006, the portfolio grew to 700 million rupees (\$6.5 million); but its default rate spiked to 25 percent as a result of the aggressive sales promotion, which turned out to be disappointing. Management had to intervene and take corrective action.

In addressing these first challenges, Tameer's management realized that efficiently servicing the primary customer base they were targeting, namely the poor and the unbanked, would require a substantial deepening of their infrastructure. And that was not viable based on a traditional branch strategy, with the high set-up and maintenance costs involved. For example, an average set-up costs \$70,000 along with maintenance costs estimated at about \$10,000 per month. Moreover, individual branch reach only amounted to a five to six kilometers radius around the branch, meaning a very unfavorable cost/reach ratio. Thus, the existing branch-based model was questioned and a hub-and-spoke approach devised: taking this approach, branches would become transaction centers with satellite touch points (community centers, sales centers) around them located right in the market, at

close proximity to the proposed customer base. The main benefit, beyond increased outreach, was that the set-up and maintenance costs for these satellite points amounted to half of those in a branch.

In essence, what Tameer proposed was as follows:

1. Aim for scale, implying increased outreach
2. Adopt a low-cost model: build a franchise model based on sales centers, community centers and financial centers, though notably with only financial centers being allowed to collect deposits/repayments. However anticipate sales and community centers will eventually be upgraded to financial centers as they became sustainable.
3. Seek quality customers: a tighter screening process, involving a credit committee, would ensure selection of only those customers that Tameer really wants.

Unfortunately, even with this hub and spoke approach, personnel costs remained prohibitive; at these levels they would retard any further deepening of the firm's business development. Tameer, therefore, decided to go one step further and explore the possibility of setting up a network of agents to open bank accounts and provide a full range of financial services, but to do so via a mobile model instead of traditional branches. This led Tameer to explore further potential partnerships in Pakistan while piloting a branchless banking channel with CGAP to 'test drive' various technologies (bio-metric ATMs and POS-based loan disbursements and repayments).

Telenor, meanwhile, was experiencing significant competition in Pakistan and identified mobile financial

services as an opportunity to serve existing unmet demand in the country and generate a new income stream that could offset the steep decrease in mobile communications revenue. Because SBP's position was known to be bank-centric, Telenor knew it would need a bank partner.

Synergies between both organizations started developing around Telenor's willingness to grow in rural areas and Tameer's need for a partner who could bring both the technology and the agent network. This culminated in a formal agreement in 2008. The agreement made official both parties' intentions to jointly launch Easypaisa, an agent and mobile-assisted payment service, and resulted in Telenor's entry into Tameer's equity structure.

OVERVIEW OF TAMEER OPERATIONS

Tameer currently operates through 113 branch touch points (45 branches plus financial centers and booths) and 25,000 agent touch points, with over 1,400 employees of which 500 loan officers are in charge of sales and payment recovery. Out of the 144 districts, Tameer has branches in 44 districts and agents in 30 districts, giving it 50 percent coverage in Pakistan. Going forward, Tameer plans to increase the number of branches, although the highest growth will come through agents.

It has around 400,000 borrowers and 180,000 depositors, and has recently become the largest microfinance institution by gross loan portfolio. It has garnered a 7 percent share of total borrowers and a 33 percent share of deposits. Tameer prides itself on 30 percent of its active borrowers being women.

The gross loan portfolio stands at 6.9 billion Pakistani rupees (\$64 million) and continues to grow with a low portfolio delinquency rate of just 0.85 percent (PAR 30 days). This has occurred over the past three years, even though the entire industry has been more or less stagnant. In fact, Tameer has become the first liability-positive bank, enjoying about 50 percent of the industry's revenue.

Tameer presently offers a variety of products to meet their customer's needs:

Lending products:

- Entrepreneur loan: Targets entrepreneurs wishing to expand their existing business or start a new one. These are unsecured with a 12 month tenure.
- Housing loan: Meant for home improvement. Loans of this type are secured and collateral-backed, offering amounts up to 500,000 rupees (\$4.6 thousand), with tenures of up to five years and equal monthly installments.
- Equity release program: Offers the facility to borrow against assets owned by the customers, particularly those focused on agricultural inputs or working capital needs. It is a secured bullet loan, with a quick turn-around time and limited tenure.
- Group lending: An equal monthly installment-based loan of 12 months' tenure coupled with mandatory savings (10 percent of the loan amount). The target clientele are mostly agri-groups and those seeking general loans.
- Salary loan: Aimed mostly at employees, recognizing that all Tameer customers are not necessarily self-employed.
- White goods financing: Financing purchases of these in tandem with Haier (for example televisions, refrigerators, and washing machines). This is an equal monthly installment-based loan with a 12-month tenure and quick turn-around time.

Deposit products:

1. Current account: A non-interest-bearing account aimed at small—and medium-size businesses, along with individuals.
2. Savings account: Targeting individuals and micro-entrepreneurs with 8.5 percent annualized returns and monthly incomes. A minimum account-opening balance of 5,000 rupees (\$46.40) is required.
3. One year term-deposit: Provides an attractive return of 14 percent per annum with enticing ancillary features including life and health insurance, ATM cards and an Easypaisa account. The minimum investment required is 5,000 rupees (\$46.40).

4. Senior citizen term-deposit: A time deposit product for senior citizens offering an exceptional return of 16 percent per annum. These deposits have flexible investment terms ranging from one to three years. A minimum investment of 10,000 rupees (\$92.80) is required.
5. Business current account: Designed for target segments (wholesale fruit/vegetable markets and supply chains among others) which have frequent transaction and other banking service needs.

Tameer is exploring the development of new products specifically designed for distribution via branchless banking channels, along with others likely to promote access to branchless banking services. For instance, Tameer is evaluating the option of introducing handset and retailer financing to further drive Easypaisa's market penetration while at the same time furthering greater financial inclusion. Out of Telenor's 30 million subscribers, only ten million have Internet-enabled phones.

A well-thought-out financing product would enable customers to upgrade their devices and thereby enhance their user experience with Easypaisa. Along the same lines, Tameer recently launched an overdraft facility of up to 500,000 rupees (\$4.6 thousand) for agents at an annual rate of 35 percent and with a 40 percent state bank guarantee.

EASYPAlSA MODEL AND STRATEGY

As previously noted, exchanges between Telenor and Tameer Microfinance Bank started early on, and in time resulted in an agreement between both players that led to the launch of an innovative mobile payment service, Easypaisa. This agreement stipulated that Telenor would function as the super-agent for Tameer's Easypaisa service, as well as supporting other operational areas where Telenor has competitive strength. Furthermore, Telenor took a 51 percent ownership stake in Tameer, a clear sign of its long-term commitment to mobile financial services in Pakistan.

From Telenor's standpoint, they had established themselves in 2005 and invested significant capital to

assure a strong market position even though competition had driven revenues-per-customer down. They did foresee some core business benefits, such as churn reduction and increased average revenue per user; but these were considered ancillary benefits. It was largely the additional revenue that the new payment service could provide that motivated their 'go' decision.

Tameer saw compelling business benefits in partnering with Telenor. Such an arrangement would:

1. Enable Tameer to build a large scale payment service, resulting in additional fee-based income
2. Give Tameer access to a network of 150,000 agents likely to significantly expand their footprint and support further client growth
3. Enable Tameer to mobilize mass savings while lowering their cost of funds (Tameer's cost of capital at that time was approximately 12 percent)
4. Give Tameer access to more marketing 'muscle', an unquestionable benefit for their quest to become a mass-market bank
5. Build brand value, resulting in a higher company valuation

Although Easypaisa was initially designed as a payment service, it was anticipated from the beginning that Tameer would need to integrate it into their core business to extract maximize value. However, the short-term priority was to build a scalable and sustainable payment service and with a strong brand presence before taking any further steps to integrate the new channel with Tameer's overall operations.

Model overview

As mentioned above, Telenor owns a 51 percent stake in Tameer Bank. And Easypaisa is seen as a Tameer product from a regulatory perspective. As to how the roles and responsibilities are actually split, Tameer has a super-agent agreement with Telenor. Accordingly, Telenor has responsibility for the distribution aspect of the business, but also manages others such as marketing, given their mass marketing strength in mobile telecoms. Tameer, on

the other hand, is in charge of banking operations and regulatory compliance, plus customer service since data confidentiality requirements prevent Tameer from sharing any transaction information with Telenor. Product management is managed jointly, although Telenor teams provide the leadership. It is anticipated, however, that Tameer's involvement in product development will become increasingly important as Easypaisa gradually evolves into developing more banking products.

As is the case with many such partnerships, the relationship between Telenor and Tameer has improved over time. Initially, however, it was complex. On the one hand, Telenor owned 51 percent of Tameer, which prompted them to see themselves as the parent company. On the other, they were only operating as the super-agent of a service categorically seen by SBP as a banking service, meaning their actions were subject to Tameer's decisions in banking operation-related matters. Thus, making the partnership work amounted to a subtle balancing act requiring the full commitment of top management on both sides.

Description of the service

Easypaisa is now being offered via a network of 25,000 agents who belong to Telenor's overall network of 150,000 airtime agents throughout Pakistan. Easypaisa agents use an mPOS device linked to a Fundamo wallet platform that is hosted and operated by Telenor. Customers have the option of opening a wallet account (although opening such accounts is only possible at 1200 agent locations due to operational constraints driven by KYC requirements). Customers can avail themselves of a USSD menu; or they can elect to conduct over-the-counter transactions without the need to open an account. The Fundamo platform and Tameer's core banking system are technically integrated: individual accounts are opened on the former while a pooled account in the core banking system reflects total balances held in all individual wallets.

Easypaisa currently offers the following services:

1. Cash-in and cash-out services at agents
2. A bill payment facility:
 - a. For utility bill payments
 - b. Other bill payments
 - c. For making loan repayments to various MFIs
3. Domestic remittances
4. Top up:
 - a. From the handset application
 - b. From agents (OTC)
5. Payroll distribution; government subsidy disbursement (such as BISP)
6. Savings (non-interest bearing) with attached life insurance designed by Adamji Life (offered only to wallet users)
7. Cards for BISP beneficiaries to make withdrawals at ATMs

Tariffs have evolved significantly since the launch, as competitive pressure from UBL and other players has driven prices down. The following tables describe current tariffs.

Current performance

To date, Easypaisa has achieved significant outreach via a service that is primarily offered as an over-the-counter service to all Pakistanis, irrespective of whether they are clients of Tameer and Telenor or not. The service is available across 1300 cities in the country.

A growing number of transactions

At the present time, about 30 percent of Tameer clients use Easypaisa. This translates into 7.2 million transactions and five million unique users per month. More than 95 percent of these transactions are still over-the-counter. By contrast, there are only 1.5 million wallet accounts of which 140,000 are active on a monthly basis. It is worth noting that OTC transactions are currently capped at 15,000 rupees (\$140), which limits the total amount transacted via Easypaisa. However, according to SBP's latest Branchless Banking Newsletter, the total volume and value of transactions processed during the first quarter of 2013 jumped by 16 percent to 41.1 million and 13 percent

TABLE 3: Current tariffs (in rupees)

Transaction	Slab start	Slab end	Charges*
Cash deposit	100	25,000	Free
Bill payment*	1	—	Free
Easyload	10	—	Free
Donations	3	—	Free
Create PIN	—	—	Free
Change PIN	—	—	Free
Balance enquiry	—	—	Free
Send account Info	—	—	Free
Mini statement	—	—	Free

*16% Federal Excise Duty (FED) or service tax applies to fees for bill payments to Internet companies.

Cash withdrawal

Slab start	Slab end	Charges
0	1,000	23.20
1,000.01	2,500	46.40
2,500.01	4,000	69.60
4,000.01	6,000	92.80
6,000.01	8,000	116.00
8,000.01	10,000	139.20
10,000.01	13,000	162.40
13,000.01	16,000	185.60
16,000.01	20,000	208.80
20,000.01	25,000	232.00

to 171 billion rupees. Given Easypaisa's success, it is no surprise that 60 percent of these numbers are directly attributable to Easypaisa.

In addition, Q1 2013 saw Tameer collect 4.2 million rupees in payments for Pakistan International Airline tickets through agents. Tameer has also handled 29,039 international home remittances worth 781 million rupees through Easypaisa franchises, according to SBP.

The following chart depicts the evolution of Easypaisa transactions over the years, both of volume and value. It shows close to 100 percent growth year-on-year and illustrates the reach of the service.

Funds transfer (mobile account to mobile account)

Slab start	Slab end	Fee	FED (16%)	Fee (with FED)
0	200	6	0.96	6.96
200.01	500	12	1.92	13.92
500.01	1,000	20	3.20	23.20
1,000.01	2,500	40	6.40	46.40
2,500.01	4,000	60	9.60	69.60
4,000.01	6,000	80	12.80	92.80
6,000.01	8,000	100	16.00	116.00
8,000.01	10,000	120	19.20	139.20
10,000.01	13,000	140	22.40	162.40
13,000.01	16,000	160	25.60	185.60
16,000.01	20,000	180	28.80	208.80
20,000.01	25,000	200	32.00	232.00

Funds transfer (mobile account to CNIC^a)

Slab start	Slab end	Fee	FED (16%)	Fee (with FED)
0	1,000	40	6.40	46.40
1,000.01	2,500	80	12.80	92.80
2,500.01	4,000	120	19.20	139.20
4,000.01	6,000	160	25.60	185.60
6,000.01	8,000	200	32.00	232.00
8,000.01	10,000	240	38.40	278.40
10,000.01	13,000	280	44.80	324.80
13,000.01	15,000	320	51.20	371.20

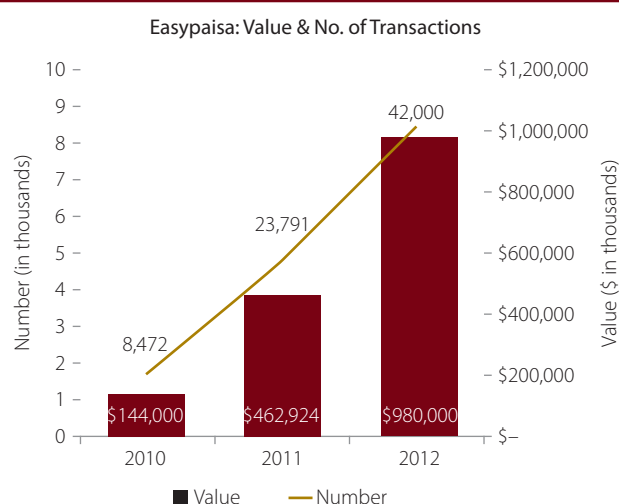
^a Computerized National Identity Card (CNIC): All Pakistani citizens above the age of 18 must register for the CNIC. The card serves as an identification document to confirm one's identity as a Pakistani citizen. Furthermore, it is necessary to hold a CNIC in order to open bank accounts, obtain a passport, or conduct other monetary transactions such as buying a car, house etc.

Limited use of mobile accounts

Despite the significant growth seen in mobile account activity over the last four months, mobile account penetration remains extremely low. In fact, this the biggest challenge going forward, linked as it is to customer education. Another hurdle has been Tameer's ability to perform KYC (to enable the further adoption of mobile accounts)

TABLE 4: Easypaisa numbers in 2012

Products/services	# of transactions	Volume transacted (Rupees)
P2P funds transfer	Over 18 million	75 billion
Account-to-Person funds transfer	1.2 million	4.5 billion
Person-to-Account funds transfer	9,000	42 million
International remittances	100,000	2.8 billion
Utility bill payments	Over 23 million	28 billion

FIGURE 3: Easypaisa transaction growth

Source: Tameer Internal Data.

TABLE 5: Channel expansion 2011–2013

Year	Touch points (branches + satellite offices)	Agents
2011	104	15,000
2012	119	30,000
2013	125	40,000

in line with regulatory requirements. Any account opening requires a high-resolution picture of the CNIC to be sent to NADRA¹, which costs 51 rupees (\$0.50) per transaction. As well, providing an agent with equipment to take

a high-resolution photograph costs about \$150; so equipping them all is not viable. Easypaisa now makes up 50 percent of all of the bank's branchless bank accounts, and 22 percent of the active accounts.

Agent performance

For three years, the ongoing expansion of Easypaisa's agent network has driven the growth of the payment business. The following table illustrates this and the concomitant growth of other touch points (branches + satellite offices) over the same period. The fact the agent channel has grown much faster than the other channels reflects Tameer's drive towards branchless expansion. In future, Tameer anticipates higher growth in these ancillary touch points; but the agent network will remain the primary channel.

Today, 7.2 million transactions per month (86 million transactions per year) flow through Easypaisa's network. Agents are relatively satisfied with their commission levels, 50 rupees (\$.50) per transaction. On average, each active agent handles some 250 transactions per month, earning about \$125 on a monthly basis. The total cost of maintaining the Easypaisa channel are about \$20 million per year (with a total of 14,000 active agents). Part of this amount is funded by client commissions (approximately \$10 million). Client commissions are linked to bill payments being free. Customers only pay for transfers. Therefore, customer-generated is equal to 20 percent x 86 million (the number of transfer transactions) x 60 rupees, or \$10 million.

Notably, though, 16 percent of the agents register 80 percent of the transactions, indicating a significant imbalance in agent productivity. This should improve over time, as Easypaisa scales up and focuses on improving agent activity rates.

¹ The National Database and Registration Authority (NADRA), Pakistan is an autonomous body within the government of Pakistan established by the constitution which manages the national registration database of all Pakistani citizens. It is also responsible for issuing the CNIC to all citizens.

It is also noteworthy that Easypaisa includes 46 percent of the total number of agents in Pakistan, making it a front rank contributor to the national financial inclusion effort.

Starting with deposits

Though not yet integrated into Tameer's core business, Easypaisa has progressed its deposit mobilization, aggregating a total of 140,000 rupees (\$1,400) in sticky deposits. Easypaisa mostly reaches clients who are outside the traditional Tameer service segments. This constitutes an opportunity for Tameer to target mass deposits. To date there are about 70,000 branchless banking-assisted deposit accounts, with an average balance of 2,000 rupees (\$18.50). Tameer aims to further leverage Easypaisa as a deposit mobilization channel, spurred by new and innovative products. Currently some Easypaisa savings products pay 6 percent.

Further integration with Tameer's core business

All the above noted, however, Easypaisa has yet to have any direct impact on either Tameer's existing structure or costs. In particular, Easypaisa has yet to be used in the collection of loan repayments, mostly for fear of increased defaults. Tameer's business is a high-touch business that largely centers around relationship management. Loan officers visit customers for rerepayments.

Importantly, SBP's regulatory treatment of defaults is very stringent. In terms of accounting for defaults, or any defaulting customer 30 days past the due date, branch income has to be suspended. And beyond 60 days, Tameer has to provide a 25 percent reserve on the outstanding payment. This can affect Tameer's branch performance because it is critical that defaults be maintained in the 0.9 percent range to ensure branch profitability. However, a pilot project is under way which is experimenting with disbursement and repayment via agents. This transformation will gradually be blended in. The pilot is first being tried at two branches.

Even so, Easypaisa's payment collection facility has been adopted by other MFIs who have observed a significant benefit in the service.

Revenue contribution

To date, the additional revenue rendered by Easypaisa represents 21 percent of Tameer's top line revenue. This has helped reduce Tameer's reliance on its loan book. This has to be put in perspective, (comparing the 80 people in the branchless banking team versus a total employee base of 1,400) to be truly appreciated.

Revenue is generated from different sources: customers (for transfer transactions), utility companies (bill payments), and corporate clients (mass disbursements). The revenue sharing agreement between Tameer and Telenor is straightforward as it pertains to the transactional part of the business: they share net revenue (gross revenue—distribution costs) in the same ratio as they split costs. This arrangement amounts to a 13 percent to 87 percent revenue share. Total revenue generated by Easypaisa is now about \$25 million per year.

Cost benefit

Expanding its outreach via Easypaisa agents has delivered significant cost advantages to Tameer. First, agent set-up and maintenance costs for agents are much lower than those required for branches and satellite touch points. The table below puts them into perspective.

Beyond channel set-up and maintenance costs, Easypaisa is bringing transaction costs down. Although right now Easypaisa is only used for payments services, and is not yet fully integrated into Tameer's core business, Tameer's vision is to achieve that integration in the long run. That is an important part of the rationale for the present loan repayment pilot. It is believed that this will lead to

TABLE 6: Set-up and maintenance costs comparison

Channel	# of people	Set-up costs (USD)	Maintenance costs per month (USD)
Branch	10–15	\$70,000	\$5,000–\$10,000
Satellite point	7–8	\$30,000–\$45,000	\$3,000
Agent	1	\$1,000–\$2,000	\$200–\$500

TABLE 7: Channel impact on transaction cost

Channel	Transaction type	Transaction cost (USD)
Branch	Cash in/out	\$6
ATM	Cash withdrawals	\$0.15
Agent	Utility payments	\$0.7

operational efficiency gains—and further cost reductions for Tameer. The table below quantifies the cost reduction impact of using an agent network.

Future Strategy

As a first step, Tameer sees leveraging Easypaisa to mobilize low-cost deposits from the mass market because, successfully done, this has the potential to significantly lower their cost of funds while increasing their profitability. Until recently the deposits garnered were costly (9 percent to 12 percent) because of Tameer's determination to penetrate the senior citizen and widow segments that are traditionally very loyal to government. So despite the related high costs, doing this enabled Tameer to acquire 300,000 depositors who collectively added up to a source for sticky deposits. It also provided additional support for financial inclusion goals while generating acceptable spread.

A main Tameer goal is to expand their product portfolio by introducing more innovative and well-designed savings products that fully meet customer needs while reducing the cost of capital. For instance, Tameer recently launched Kushaal, a deposit account with free life insurance for those customers leaving money in their accounts for more than 30 days. This makes deposits stickier and financial intermediation easier. Another product was designed around the reality that Pakistanis' primary savings are in gold; according to Tameer market research, 36 million households own an average 22 grams of gold. So they introduced a new product that enables their customers to buy gold in increments as small as \$5, and therefore to accumulate gold through Easypaisa. In addition to its mass-market appeal, this should also drive Tameer's deposit base up.

Secondly, Tameer hopes to better leverage Easypaisa to offer a whole range of products around financing. For instance, Tameer is currently exploring the opportunity to use information now available through Easypaisa and Telenor's customer relationship management systems to calculate customer credit scores.

Lastly, Tameer wants to get involved in micro-insurance. Health care is particularly expensive in Pakistan. Just one hospital visit or chronic illness can potentially push people who make over 100,000 rupees (\$928) per month back below the poverty line. The MFI has already designed an insurance product with a premium of \$6.50 per year that provides coverage up to 35,000 rupees (\$325). With the considerable distribution effort required to successfully market such a product, and the compressed margins under which it operates, Tameer is planning to leverage Easypaisa for that function, aiming to distribute some 15,000 insurance policies a month.

PARTNERSHIP MANAGEMENT

As mentioned earlier, the partnership arrangement between Tameer and Telenor is structured around a super-agent agreement under which Telenor manages the entire agent lifecycle (agent identification, recruitment, training, management, reward and retention). Telenor also contributes significantly to the marketing effort and product development due to its long-standing experience of mass-market customers. Tameer, in turn, is in charge of banking operations (cash management and risk management), and contributes to product development while managing the relationship with SBP. Because of data confidentiality pertaining to aspects of financial transactions, Telenor customer service agents cannot be involved; thus Tameer has also taken responsibility for the customer service aspect.

The revenue sharing agreement between Tameer and Telenor is straightforward for the transactional part of the business: net revenue (gross revenue minus distribution costs, where distribution costs represent approximately 50 percent of total revenue) is shared between both parties in the same ratio as their cost sharing. In the beginning, this

TABLE 8: Roles and responsibilities assumed by Telenor and Tameer

	Product, Marketing, and Awareness	Customer Acquisition and Mgt	Distribution and Agent Network	Technology and Infrastructure	Treasury Float Management and Compliance
Telenor Pakistan	<ul style="list-style-type: none"> • Product • Pricing • Branding and Campaigns 	N/A	<ul style="list-style-type: none"> • Distribution Management • Physical Distribution 	<ul style="list-style-type: none"> • Customer and Financial Transaction Systems 	N/A
Tameer	<ul style="list-style-type: none"> • Endorsed Brand • Credit Product Design 	<ul style="list-style-type: none"> • Customer Registration and Know Your Customer • Call Centre 	<ul style="list-style-type: none"> • Branch Distribution • Cash Management • Agent Certification 	<ul style="list-style-type: none"> • Transaction Switch • Billing Servers • Banking Operations 	<ul style="list-style-type: none"> • Accounting, Treasury • Float Liquidity Management • Compliance • Audit

Source: Interviews with Tameer Staff and Internal Tameer Data.

translated into a 10 percent to 90 split in favor of Telenor. Over time, however, the split has gradually moved toward a 13 percent to 87 percent revenue share, and is expected to further evolve in Tameer's favor as the business model shifts towards more core financial products.

As for the savings component, Tameer has agreed to share the spread after deducting regulatory compliance costs and assuming short-term placements (not relending) of customer float. Discussions that are underway concerning future credit products, and the management negotiations are necessarily more complex.

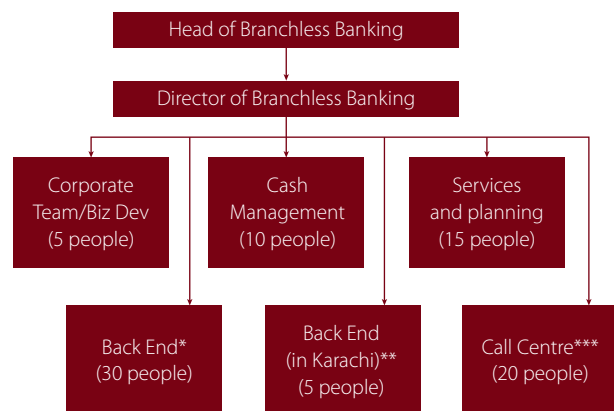
OVERVIEW OF THE EASYPAlSA ORGANIZATION

Tameer is actually two separate organizations: the core banking unit and the Easypaisa unit. Both teams are separate, which was a deliberate choice influenced by the transaction-focused business model that was chosen.

The Easypaisa organization has a virtual joint venture structure. In total, there are approximately 220 full-time employees involved in Easypaisa, 80 of which come from Tameer. The MFI recruited these teams, drawing on internal and external sources. Specifically, a total of 65 people work managing IT/operations and transaction monitoring, with another 20 posted to the call center. Branchless banking operations are mostly concentrated in Lahore.

The core management of Easypaisa (Branchless Banking Committee) consists of three executives from Tameer and four from Telenor. Roar Bjaerum, as the head of Easypaisa, reports to the Branchless Banking Committee of Tameer's board.

A formidable challenge that faced this new organization was aligning the various teams, meaning the Telenor team, the Tameer team and the Easypaisa team, in terms of roles, compensation packages, benefits, and

FIGURE 4: Structure of the Easypaisa Team (Tameer team members)

* Handling reconciliations, transaction monitoring, level two problem resolution.

** Handling back end operations/risk and treasury.

*** Handling both core banking and branchless banking requests.

career opportunities. For instance, Tameer team members seconded to Easypaisa are still not incentivized based on their Easypaisa performance, but rather on overall banking performance; obviously this needs to be realigned. In fact, managing this new structure—and the people transitioning from parent companies to the new organization—has been a herculean human resources task, and is still work in progress four years after it was launched.

Another issue Easypaisa faced simply by being an industry pioneer is that it has lost about 30 people to the competition (HBL Express, Monet, Askari) over the last two years. Thus, the current team is a combination of old and new resources. Looking further out, it is clear that employee retention must be a key focal point over the next few years.

PRODUCTS AND SERVICES

As noted earlier, Tameer offers a range of payment products through Easypaisa.

In fact some of these products have been introduced gradually since 2009, with the two-fold aim of educating customers—including training them to use the service—and building a solid business case for agents. The products have mostly been introduced over-the-counter, allowing the agents the time needed to familiarize themselves with the service and earn substantial transaction

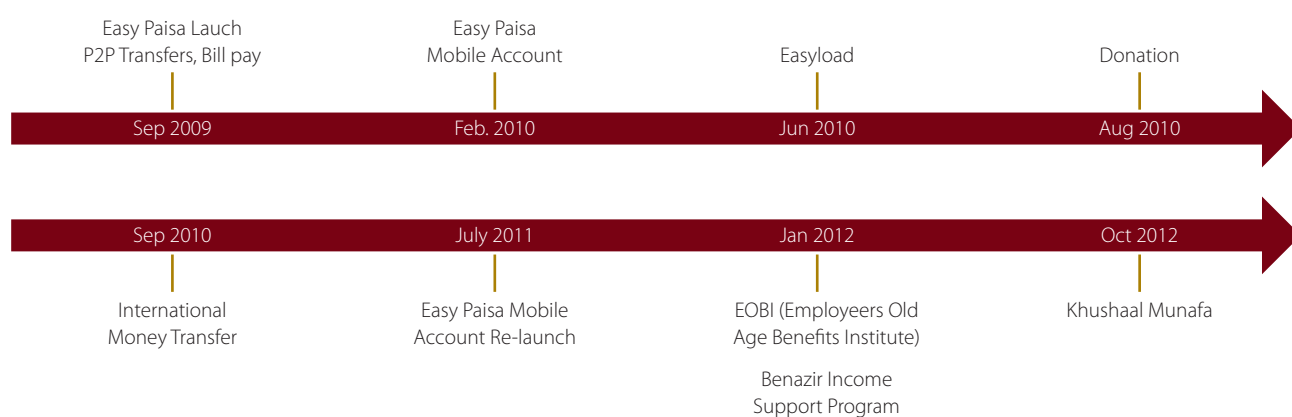
commissions from customer transactions as they do so. This approach was purposely taken with a view to subsequently transitioning the user experience to the over-the-mobile-channel.

Product development is a joint responsibility; but it has mainly been executed by Telenor managers with the Easypaisa team, under the direction of one of the parent company's product development managers. Indeed, all products launched so far have been transactional products that are more typical of a telco-led mobile money implementation. That said, though, since Tameer is in charge of banking operations and compliance, any new product is presented to the cross-functional Easypaisa team and has to be validated against the business plan before its release.

As depicted above, Easypaisa products have been released sequentially to give the market sufficient time to absorb them. By offering an OTC experience at the outset, Easypaisa's aim was to educate customers gradually and drive both foot traffic and transactions at agent locations. This gradual introduction has, of course, been accompanied by intense communication and field marketing campaigns.

Of these products, the most successful and popular today, by far, are bill payments and person-to-person transfers. Collectively, Pakistanis pay some 30 million bills per month (with significant bottlenecks for rural populations who do not have access to other payment channels such as ATMs). This translates into a domestic money

FIGURE 5: Easypaisa product journey



Source: Interviews with Tameer Staff and Internal Tameer Data.

FIGURE 6: Graphical illustration of marketing campaign intensity

Source: Tameer Internal Data.

transfer business with an estimated value of \$7 billion per year. This is the big market that Easypaisa is targeting, the objective being to build on existing-use cases while simplifying the customer experience by providing a broadly accessible service through its widespread agent network.

Because Easypaisa bill payment is free for the customer and is more convenient than traditional payment methods/locations, it accounts for 60 percent to 90 percent of all Easypaisa transactions (depending on the month). However, because of higher fees, money transfers also generate the majority of Easypaisa revenues.

MARKETING AND PROMOTION

Successfully launching Easypaisa required a meaningful marketing budget, which Telenor mostly provided. The two main products at the time were utility bill payment and domestic remittances. At first these were offered through a network of 12,000 Easypaisa agents. The Marketing efforts kicked off with high-level inspirational ads. The core message was 'Changing your life'. However, the wallet account initial campaign did not seem to be well understood by the market. This pushed Easypaisa to launch a second wave of campaigns around product features and benefits.

This is why over the first two years, the marketing budget was significant: the new product needed to be positioned and awareness created among the general population, which naturally required a fair number of above-the-line campaigns, particularly on TV. The initial budget split per year was in the 60 percent range for ATL (2 billion rupees) with the remaining 40 percent allocated to the below-the-line component (1.4 billion rupees). Later, as the focus started to shift towards BTL activities in local communities, this budget split evolved towards a 50/50 ratio between ATL/BTL. As for the specific focus on customer awareness and usage, the following actions have been taken:

- First phase: a massive ATL/BTL campaign was rolled out to convey the 'Changing your life' core message. In essence, it made the target audience aware that a new, life-changing product was coming to market. The focal points were 70 percent awareness, 30 percent education. The marketing team also leveraged these campaigns to spark the thinking around unusual situations. As an example, one of the ads asked the audience: Have you transferred money while cooking food? While sitting at the office? The objective was to drive awareness and market buzz.

- Second phase: activation of mobile accounts with direct marketing linked to a door-to-door campaign to get people registered. Notably, more focused BTL activities were rolled out in communities. Direct targeting was deployed aimed at corporations, promoting B2C services.

At the same time, this mobile account marketing thrust was not only focused on customers; it also targeted Easypaisa agents. This latter aspect, however, involved weekly on-site engagement with agents, lodging the following message: selling a mobile account benefits the agent as well (especially those making multiple deposits). Other specific actions/activities included: town hall committee meetings, meetings at restaurants over cups of chai, and other collegial and casual encounters.

At present, Easypaisa's marketing effort is mostly handled by Telenor members, and is fully funded by them. For each new product, a combined team convenes to discuss related business cases, marketing needs, budget requirements, the campaign strategy and so on. This team also ensures that local considerations are taken into account and that none of the decisions taken goes against any state bank regulation.

Indeed, the main marketing challenge was (and still is), depending on the region (Punjab, Baluchistan etc.), that the target markets and key messages to be imparted are different. Moreover, everything has to be adapted to the local language: Pakistan is a country of many languages. As an example, the Baluchistan region alone has four different languages and there is no language commonly understood by all people living there. Besides, the Easypaisa personnel sent to these very specific places must be locals, otherwise they will not be trusted.

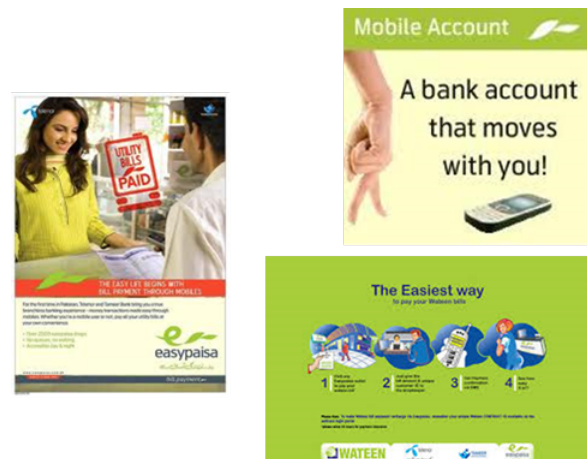
Marketing material is usually produced in the national language supported by the most important provincial language. As well, in certain regions female staff can only go to certain places and meet with female groups. As a result, leveraging them to the greatest extent requires considerable logistics and organization.

In order to drive marketing plans and properly account for all these local specificities, a combination of careful market research and team knowledge is always

considered in defining what types of campaigns will be launched in which regions and for which target audience. Initial brainstorming sessions are followed by a field visit from management to bring them into the market analysis loop, allowing them to validate the outcome of this 'brainstorming in the field', and decide the best plan of action.

Last, in terms of internal awareness, every Tameer staff member has a mobile account, which implies that every single Tameer employee is well versed as regards the product, with a firm target for account openings. Branches also have such targets. Tameer has successfully leveraged human resources coordination committees and existing training structures to ensure this awareness is well rooted across the organization.

Examples of Easypaisa marketing:



RISK MANAGEMENT

Risk management—as a core banking function—is handled by Tameer. And a full risk assessment exercise has been undertaken as regards Easypaisa operations. The goal was to define the right level of risk management along with the controls necessary to ensure a safe operation of the service. As it stands now, the risk team is organized around eight units (KYC/account opening, scrutiny and verification, reconciliations, customer requests, transaction reversals, quality assurance, and agent control). These are supported by back-end teams, and resourced

with seven full-time staff who are tasked with carrying out all internally—related tasks. Within this team, three people are directly involved in the auditing / quality control of the business. These people are risk management professionals and provide the assurance that Easypaisa is run to best practices standards from a risk perspective.

Internal controls

In terms of the controls now in place, every mobile account holder (for the basic level 0 account) is subjected to a transaction limit of 15,000 rupees (\$139) and limited to two transactions per day. The team uses compliance monitoring tools as well as an anti-money laundering tool that is updated according to international black lists in performing all necessary checks.

When accounts are opened, there are three levels of controls:

1. Level 0: A picture of the client is taken, along with a copy of her or his CNIC card. These elements are uploaded to the back-end system in real time, and then checked against the NADRA database
2. Level 1: A call-back verification is made by a call center agent to ensure that the client is the person she/or he claims to be. This is generally based on some CNIC information or other details related to current products with Tameer
3. Level 2: A full bank-grade verification is performed

Some operational risks

There are 1,200 account opening locations (between franchises, Telenor locations, Tameer branches). Agents approved for account opening are equipped with a high-resolution camera (\$150 per unit) and a computer, because the entire process is electronic and automated. However, electricity availability remains an issue in certain areas. In Punjab for instance, there are electricity cuts 70 percent of the time, which affects reliable agent operations. There are other challenges as well, related to running costs, battery down time and similar logistical issues. These pose operational—and reputation—risks that

deserve, and receive, close attention from the risk management team.

Another challenge relates to controls around CNIC card validity. Electronic control to check CNIC expiration is difficult. These checks are therefore left to the individual agent's discretion. This means that regular audits and mystery shopping visits are required vis-a-vis account opening agents to ensure that proper KYC identification and verification processes are in use.

Agent control

Due to the magnitude of the task, agent control and monitoring has been outsourced to PCS (Pakistan Courier Services). A penalty matrix has been defined and is in place for monitoring agent performance, augmented by a system of warnings. Agents receiving two warnings are terminated. PCS performs all monitoring activities and reports back to the Tameer/Easypaisa risk management team.

Customer protection/risk management

Customer complaints are routed through multiple channels (Telenor help line number 345, email, fax, letter and others). Telenor has a Siebel CRM system which forwards incoming calls to Tameer back-end operations in Lahore. The latter has the necessary Siebel access and a complaint management system to resolve customer complaints.

IT platform

There are now 65 people on the Tameer IT team that runs the company's operations and manages the contracts with all Tameer suppliers. This team benefits from all global agreements between Telenor and its vendors, such as Microsoft and HP. Tameer sees this as a significant benefit derived from its Telenor partnership.

Easypaisa operates on a Fundamo platform that is distinct from Tameer's internally-developed core banking platform. Although licensing and integration costs have been relatively high (around \$1,200,000), the decision to purchase a specialized platform was based on Tameer's experience with its in-house core banking

system: an in-house solution for the wallet platform would have been as expensive to build, and the learning curve longer.

From a regulatory standpoint, the Easypaisa wallet platform's ownership and responsibility lie with Tameer. In practice, however, its management has been outsourced to Telenor. They also manage the contractual relationship with Fundamo. As a result, limited Tameer resources are involved with the Fundamo platform.

However, Tameer teams have been deeply involved with integration issues between the Fundamo solution and Tameer's infrastructure. With respect to this integration, the application programming interfaces were basically standard, making integration easy—in theory. But from a practical point of view, there were multiple integration points and, as with many such implementation exercises, some challenges. For instance, the integration of Fundamo and Oracle Financials General Ledgers took about a year to accomplish. Another example is the integration with Tameer's core banking system. Having been internally developed, Fundamo is integrated with it through a TPS switch. This is also used to integrate third party utilities.

The core banking integration took three to six months. Although this was somewhat faster and easier than was initially anticipated, it lacked a few major functionalities pertaining to the information security and auditing aspects. In addition, translation of all business specifications into technical specifications had turned out to be a particularly tedious and complex exercise. This could have been facilitated had there been a proper project management office in place for all exchanges between Telenor and Tameer. But this was a challenge to implement. At the present time, the Telenor Project Development Office and Tameer PMO exchange their respective roadmaps bi-weekly.

Tameer's team is also assessing the core-banking platform, which is now seven years old and displays some architectural limitations. Going forward, the intent is to use a market product.

AGENT NETWORK MANAGEMENT

The agent management function is executed by permanent Easypaisa resources, sourced from the Telenor business line since the initial strategy was to leverage that company's existing agent network. As a result, 100 members of the Easypaisa team are Telenor members; and these have responsibility for agent management. So today's structure is mostly built on a foundation of Telenor's existing agent network structure, which originally defined the territories to be handled by master agents.

The agent lifecycle is managed as follows:

1. Agents are identified and proposed by the 250-plus Telenor franchises. The latter are responsible for ensuring that the initial training is delivered to these agents once they are vetted and approved, and that the proper registration process is followed.
2. Agents are then specifically trained for Easypaisa by the Telenor teams. They are, for the most part, former Telenor sales and distribution staff.
3. On-going training is delivered by Telenor members belonging to the Easypaisa team.
4. Tameer conducts periodic operational reviews to ensure compliance with banking requirements. This is performed under the supervision of a member of the risk management team, but the actual monitoring activity has been outsourced to Pakistan Courier Services.

Concluding thoughts

The Easypaisa model amounts to a non-traditional approach whereby a microfinance bank (Tameer) and a mobile operator (Telenor) have built a mass-market payment service from which both companies stand to benefit. Telenor had the financial muscle and distribution capability to reach large numbers of customers, and Tameer had the regulatory advantage of its banking license. Unlike traditional business models, however, where financial institutions have had to derive core business benefits in order to make such mobile financial services implementation work, Easypaisa has achieved some level of success as a stand-alone payment service. This was a result of taking the over-the-counter approach, which

has appealed to large masses of customers, driving high transaction volumes and scale. However, as competition intensifies in Pakistan, the stand-alone model is likely to face sustainability difficulties. In this context, further integration with Tameer's core business is the next logical step in capturing further value for the bank's core business, both through cost reductions and the intermediation margin.

As this transition happens, Easypaisa will deliver on its promise to Tameer: namely to take the microfinance game to another level through low-cost delivery and competitive interest rates. And this should, in turn, lead to an even more attractive business case for Tameer.

