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FinTech Market Landscape Study of Pakistan

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Submitted by:

epiphany

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Desclaimer

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Introduction and Objectives

The purpose of the study is to assist AP in making investment decisions within Pakistan's FinTech landscape. AP's goal is to promote local businesses and startups in achieving scale through subsidized financing. It is expected that by the end of the study, AP team will have sufficient understanding of the market to be able to make informed investment decisions within the FinTech market.

The fintech landscape has undergone a tectonic shift over the last few years on the back of truly innovative solutions, from open banking to decentralized finance protocols. The global fintech market size is projected to grow from $294.74 billion in 2023 to $882.30 billion by 2030, at a CAGR of 17.0% during the forecast period.[1]

Verticals

Fintech is a rather broad term which incorporates anything and everything that involves the use of technology in the delivery or operations of financial services. Thus, in order to map the space, we need to first understand what areas are included.

Payments

Historically, payments has been one of the biggest trailblazers in the adoption of technology, with the two global card schemes, i.e. Visa and Mastercard, setting the rails all the way back in the 1960s. The two are now giants, processing 267 billion and 171 billion transactions in 2023, respectively. More importantly, it laid the foundations of innovation in payments, eventually paving the way for not only other channels like digital wallets but also a host of use cases from e-commerce to cross-border remittances, aimed at solving pain points like high fees, liquidity management, customer trust and long settlement timelines.

Though understandably smaller in scale, Pakistan has mirrored the global trends in payments and moved along the wind, with 55.7% of all banking transactions being digital in January-March 2024[2]. It is regulated by State Bank of Pakistan, which has a number of licensing regimes that allow an entity to undertake the payments business. First among them is the coveted banking license which requires a minimum paid-up capital of PKR 10 billion for locally incorporated players. Currently, there are 32 banks[3] licensed by the SBP, of which 14 are local private while another five belong to the public sector.

In the context of digital payments, banks have an important role to play as they hold customer deposits of more than PKR 31 trillion[4] and therefore are the biggest custodians of money. Pakistani banks facilitate payments through a number of channels, including but not limited to mobile and internet banking, real-time gross settlement systems (for large value through batch transfers in the small network of other RTGS entities), card instruments, gateways for e-commerce and point of sale among others.

However, by number of customers, it is microfinance banks like MMBL and TMB who have played the biggest role in expanding digital payments, first through building large agent networks across the country and now via their mobile apps. Together, these two account for more accounts than the entire commercial banking while also processing more mobile money transactions. While

1 https://www.fortunebusinessinsights.com/fintech-market-108641

2 https://insights.datadarbar.io/pakistan-digital-payments-q3-fy24-update/

3 https://www.sbp.org.pk/f_links/f-links.asp

4 https://www.sbp.org.pk/ecodata/deposits.pdf

the license also allows for card payments, microfinance institutions have a small presence there and primarily rely on mobile-based issuance under the branchless regulations, which postulates lower deposit and transaction limits compared to the commercial banks.

Building a broad-based digital payments ecosystem also requires intermediaries such as clearing houses and switch systems, in addition to aggregators, processors and other innovative service providers. Historically, the former two were facilitated through National Institute of Financial Technologies (NIFT) and 1LINK, both owned by a consortium of existing commercial banks and guaranteed by the government of Pakistan. However, in 2015, the SBP introduced the Payment Systems Operator/Payment Systems Provider Rules, which opened up intermediary services to other players as well and encouraged new products. The two guarantee companies were also converted into PSO/PSPs to not only continue their existing businesses but also offer additional services. Under these rules, new players can come in to offer products like payment gateways, account aggregation, switch systems, attracting the likes of SafePay, ForeePay and VRG among others.

None of these entities could issue accounts or mobilize deposits though, which was eventually addressed in 2019 with the introduction of Electronic Money Institution Regulations. As a result, entities other than banks or microfinance banks were allowed to issue digital wallets and collect and disburse money on behalf of customers, attracting the likes of Sadapay, Nayapay and Finja to the fold. Currently, five EMIs have the license to operate commercially and can do funds transfers and bill payments as well. However, due to the limited payments volume, incumbents were struggling to monetize. This paved the way for amendments in June 2023, allowing them new segments and products such as escrow for e-commerce, cross-border payments and payment initiation.

Most recently, the SBP introduced the digital banking regulations in 2022 and issued in-principle approval to five groups for the same. Unlike the PSO/PSP or EMIs, digital full banks would be eventually allowed to offer all services that a traditional bank does, such as credit or investments, and thus open up additional revenue streams.

Financing

Pakistan has one of the least developed finance ecosystems as private sector credit makes up just 10.7% of the gross domestic product. Currently, financing services can be undertaken through a number of licenses, where banks and microfinance banks are regulated by the SBP while non-bank financial companies are looked after by the Securities and Exchange Commission of Pakistan. The biggest difference is that the former two can mobilize deposits while the latter cannot, thus restricting their source of funding to debt and equity, which typically have a higher cost.

To this day, banks and microfinance banks predominantly rely on physical infrastructure — branches and sales staff — to disburse credit. However, in the last couple of years, there is a growing trend of converting the user journey to online channels, primarily through mobile apps. Similarly, the SECP also joined the bandwagon and issued the first license for digital nano lending to Tez Financial in 2018. This paved the way for more fintechs to seek the NBFC license, catering to both the MSME and consumer markets. As of July 2024, 13 companies, including Oraan and QistBazaar, have been mandated to undertake digital financing. Meanwhile, a few more fintechs possess the license for conventional financing, such as PostEx and Creditbook.

Investment

Like credit, investment services can also fall under either the SBP or SECP, where the former primarily deals with the banks while the latter overlooks a broader range of entities, including mutual funds, Modarabas, leasing companies and securities brokers. Until recently, there was no specific regulation for digital-only players, though the SECP has now addressed that through new regulations, which allow fintechs to undertake services such as asset management, securities brokerage among others. As a result, new players like Mahaana Wealth and Elphinstone have entered the market, offering investment products allowing customers to put their money in various asset classes such as equities, bonds and mutual funds. Their business models are quite similar to the traditional industry, charging both management fees and a certain commission on profits. However, this market is still quite nascent since the penetration of formal investments is quite low in the country, as evidenced by the fact that not even half a million people have an account to buy equities. By both value and volumes, banks occupy the largest share through their savings accounts which offer annualized returns of Kibor minus a few basis points.

Insurance

This is the domain of SECP where the existing regime has a number of players, from insurance companies to brokers, surveyors and third-party administrators. Currently, 50 entities have the license to underwrite while another 24 can provide brokering services. This entails all segments, i.e. life and non-life, which in turn includes health, motor, reinsurance among others. In 2022, the total value of premium through digital channels was only PKR 3 billion out of a total PKR 553 billion[5].

Existing Financial Ecosystem of Pakistan by Vertical

Following table represents the type of services that are presently being offered by organisations from different types of licenses available in the market.

License	Regulator	Broad Functions	
Banking	SBP	Payments, Lending, Savings, Insurance	1. Issue accounts and collect deposits 2. Merchant Acquiring 3. Offer credit AND debit cards 4. Provide loans 5. Offer investment products 6. Sell insurance of licensed insurers
Microfinance Banking	SBP	Payments, Lending, Savings, Insurance	1. Issue accounts and collect deposits 2. Offer credit AND debit cards 3. Provide loans 4. Offer investment products 7. Sell insurance of licensed insurers
Branchless Banking[6]	SBP	Payments	1. Account opening 2. Cash-in/out 3. Funds transfers 4. Merchant/Bill Payments 5. Remittances

[5] https://www.secp.gov.pk/document/insured-pakistan-through-digitalization-gaps-potential-roadmap-stage-1-mapping-the-existing-digital-infrastructure-of-insurance

[6] https://www.sbp.org.pk/bprd/2019/C10-Branchless-Banking-Regulations.pdf

PSO/PSP	SBP	Payments	1. Payment Gateway (POS/E-commerce) 2. Payment Scheme 3. Clearing House 4. ATM Switch 5. Account Aggregation
Electronic Money Institutions	SBP	Payments	1. Issue e-wallets and collect deposits 2. Offer physical and virtual debit cards 3. Fund transfers 4. Merchant/Bill Payments 5. Multilateral routing/ switching 6. Escrow 7. Aggregation and initiation 8. Cross-border payments (requires additional approval)
Digital Banks	SBP	Payments, Lending, Savings, Insurance	8. Issue accounts and collect deposits 9. Merchant Acquiring 10. Offer credit AND debit cards 11. Provide loans 12. Offer investment products 13. Sell insurance of licensed insurers

Ecosystem further bifurcated in Verticals

Vertical	**License Type**	**Regulator**	**Services**	**Entities**
Payments	1. Banking 2. Microfinance Banking 3. Branchless Banking 4. Payment Systems Operator/Provider 5. Electronic Money Institutions 6. Digital Retail/Full Bank	SBP	All conventional and digital banking and financial services	Banks: HBL, UBL, Meezan, Alfalah, JS etc[7] MFBs: MMBL, TMB, UBank, Khushhali etc[8] Branchless Banks: JazzCash, EasyPaisa, Konnect, JS etc PSO/PSP: 1LINK, NIFT, VRG, etc[9] SafePay, Foree etc EMI: Sadapay, Nayapay, AFT, PayMax, Finja/Opay[10]

[7] https://www.sbp.org.pk/f_links/f-links.asp
[8] https://www.sbp.org.pk/f_links/f_links_MFBs.asp
[9] https://www.sbp.org.pk/ps/PDF/List-PSOs-PSPs.pdf
[10] https://www.sbp.org.pk/PS/PDF/List-of-EMIs.pdf

				Digital Bank: KT, Hugo, Raqami, Easypaisa, Mashreq Prominent unlicensed players: Paypro, KuickPay, Haball, Keenu, Paysys Labs
Financing	1. Bank 2. Microfinance Bank 3. Digital Retail Bank 4. Non-Bank Financial Companies	SBP/SECP	1. Credit Cards 2. Earned Wage Access 3. Nano Lending 4. Leasing 5. Housing Finance 6. BNPL 7. SME	Credit Cards: Alfalah, HBL, UBL, MCB, JS etc EWA: Abhi Nano: Sarmaya, SeedCred, AsaanQarza Housing: Trellis Education: Taleem, EduFi, Oraan Consumer BNPL: QistBazaar, QistPay SME: Creditbook, CreditPer, PostEx, Trukkr, Neem Other prominent unlicensed players: AdalFi, KalPay
Investments	1. Bank 2. Microfinance Bank 3. Digital Full Bank 4. Non-Bank Financial Companies 5. Securities Brokers	SBP/SECP	1. AMC 2. PE/VC 3. Equities 4. Investor Portfolio Securities	AMC: AKD, Arif Habib, JS, Lakson, Al Meezan, Mahaana Wealth PE/VC: Fatima Gobi, PNO Ventures, Lakson Other NBFCs: Elphinstone, Trikl Brokers: AKD, Arif Habib, Topline, KTrade etc
Insurance	1. Insurance Companies 2. Insurance Brokers 3. Third-party Administrators 4. Surveyors	SECP	1. Life 2. Motor 3. Travel 4. Health 5. Takaful	Smartchoice, MedIQ
Credit Bureau	1. e-CIB	SBP	1. Credit Scoring	Tasdeeq, Datacheck

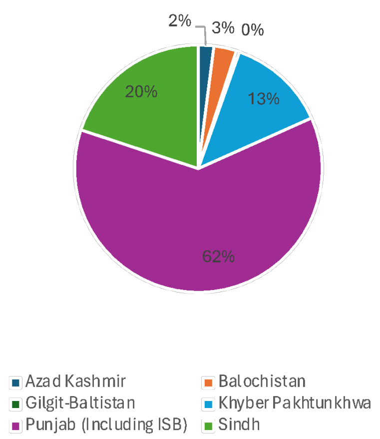
Overview of Fintech space in Pakistan

Financial services is one of the larger sectors in Pakistan with a nominal gross domestic product of PKR 948 billion as of March 2024[11] and broadly includes four key verticals: payments, credit/financing, savings/investments and insurance. Traditionally, banks have been the most prominent player in the ecosystem as their coveted license allows them to undertake the former three directly and the latter via bancassurance. Fintechs largely offer the same set of services though their delivery channel is exclusively digital i.e. through internet or mobile.

In terms of the opportunity, the present statistics of conventional banking versus digital banking have been discussed below for highlight the pace and volume at which digital banking has expanded in Pakistan. Total Bank Accounts in Pakistan held by individuals are 88,390,346[12] with 46,093,520 (52%) accounts that have balance less than PKR 5,000 as reported by SBP for December 2023. While there is a duplication factor in this number by almost 2-3 times, which is the average number of accounts an individual has in Pakistan. This makes unique accounts to approximately 35 million individuals out of the total population of 241 million[13]. Out of this population 48% are under 18, leaving 125 Mn eligible for opening a bank account. Therefore only 28% unique individuals have been financially included so far. Moreover, out of the total accounts, women hold only 21% accounts which is substantially low in terms of inclusion of women in financial services. This evident gap of approximately 20 Mn additional women that can be financially included, is the sweet spot for fintech in Pakistan.

Presently, the share of fintech in overall financial inclusion discussed above is already 73% which is reported by the SBP in their Branchless banking statistics as of December 2023[14]. The growth in this sector has been almost 50% in the past year only, which is an un-precedented growth for any financial indicator in the country, and this has been possible at the back of a developing fintech market. (SBP reports: 42,483,573 active BB accounts in 2022, and 64,121,948 in 2023). Based on this growth it is fair to say that the fintech sector is substantial as well as necessary for Pakistan for enabling the age-old issue of financial inclusion in the country, especially for females which represent the most financially left out and under-performing segment of the economy that needs to be revived.

Presently, the percentage split of branchless banking accounts by region in Pakistan is stated below. The interesting statistic however, identified from this distribution is that percentage of digital accounts in GB is less than 1%, although the literacy in this region is fairly high. This is another area that fintech companies in Pakistan need to focus on, especially since the rate of participation in business and economic activities by females in GB is fairly higher than other regions of Pakistan.



Impact on Fintech from Financial Inclusion of Women

"Liberty for a woman comes from the ability to make financial decisions for her life.[15]"

11 https://www.pbs.gov.pk/sites/default/files/national_accounts/qna/tables/QNA%20Table%201%20Q3%202023-24.pdf

12 https://www.sbp.org.pk/publications/Quarterly/2023/Dec/2.pdf

13 https://www.pbs.gov.pk/sites/default/files/population/2023/Press%20Release.pdf

14 https://www.sbp.org.pk/acd/branchless/Stats/BBSQtr-Oct-Dec-2023.pdf

15 Quote by: Reema Bint Bandar Al Saud, Saudi Arabian ambassador to the US.

The GSMA's Mobile Gender Gap Report 2022 high- lights that women in Pakistan are 33% less likely than men to own a mobile phone and 38% less likely to use mobile internet. The barriers preventing women from accessing and utilizing mobile phones and the internet are multifaceted and interconnected. A comprehensive approach is required to address the challenges women face in accessing digital technology. This includes enhancing digital literacy, improving affordability, investing in relevant content and services, ensuring online safety, and challenging prevailing social norms. Prioritizing marginalized communities, including women, children, people with disabilities, and economically disadvantaged individuals, in digital technology policies and initiatives is essential[16].

Fintech has been a favourite among investors as innovation and technological progress brought differentiated services and customer centric value propositions. This has led to a market capitalisation of $550 billion as of July 2023. After decades of blitz scaling growth, there is a funding winter in the fintech sector leading the companies to focus on creating sustainable value for their customers.

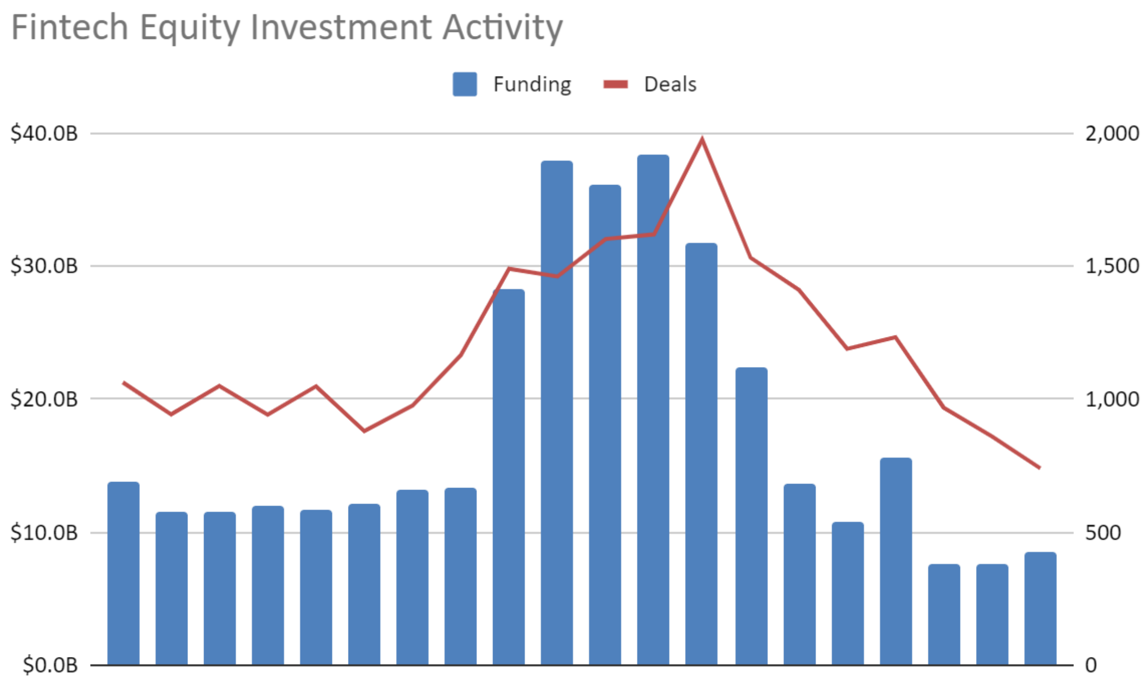
The market correction in this sector was triggered in 2022 leading to the funding activity to normalise. A challenging macro environment and uncertainty accompanied this pushing fintechs to give up on the "growth at all costs" strategy. The correction followed a one-off surge in funding during 2021 as the markets adjusted to higher market risks.

Despite a markdown in the valuations for fintech due to an adjustment in reward to risk ratio, the potential for future growth in fintech is high as the use of technology continues to increase in banking.

Fund Raising by the Fintech Sector

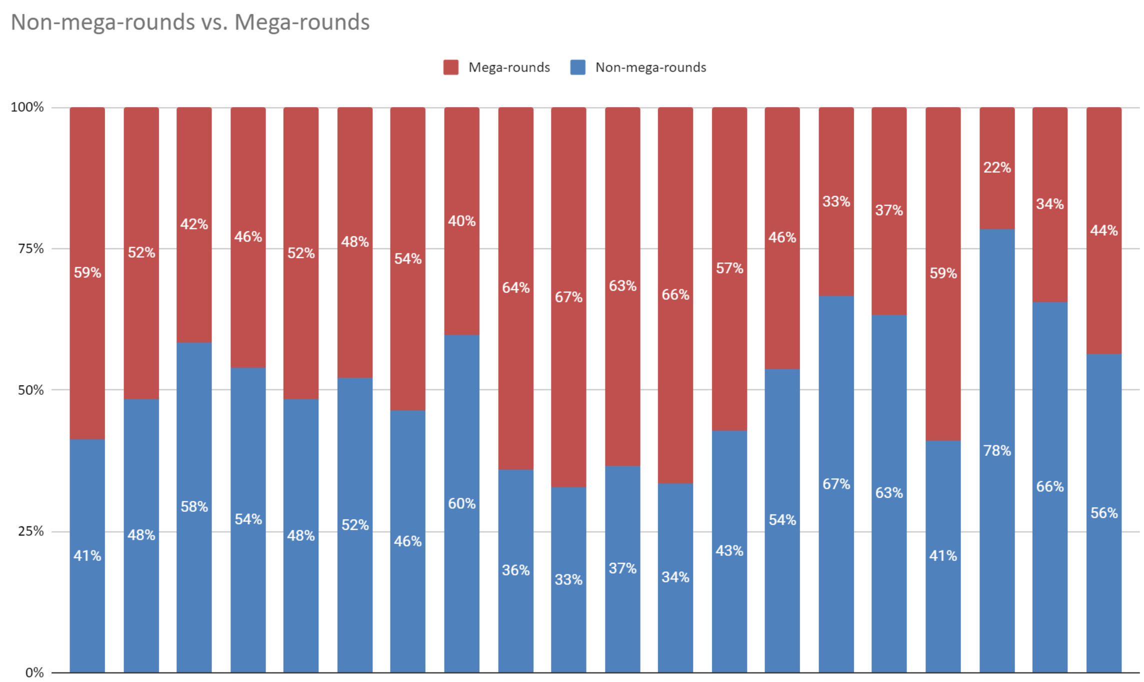
Following is a summary of deals in the fintech sector that have been analysed below for reference:

[16] https://www.pta.gov.pk/en/accelerating-gender-inclusion-in-icts-shaping-digital-pakistan-160523/gender-inclusion-strategy-160523/draft-strategy-020623



The equity funding has remained stable before 2021, a bumper season for Fintech. The rise in funding lasted for a while before a correction was observed. The funding levels have normalised as the market seeks to settle on a new normal. The dip in equity funding took the quarterly funding from $38.4 Billion in Q4’21 to $8.5 Billion in Q4’23, a 77.4% decline across a 2-year timeline.

Source: CBInsights

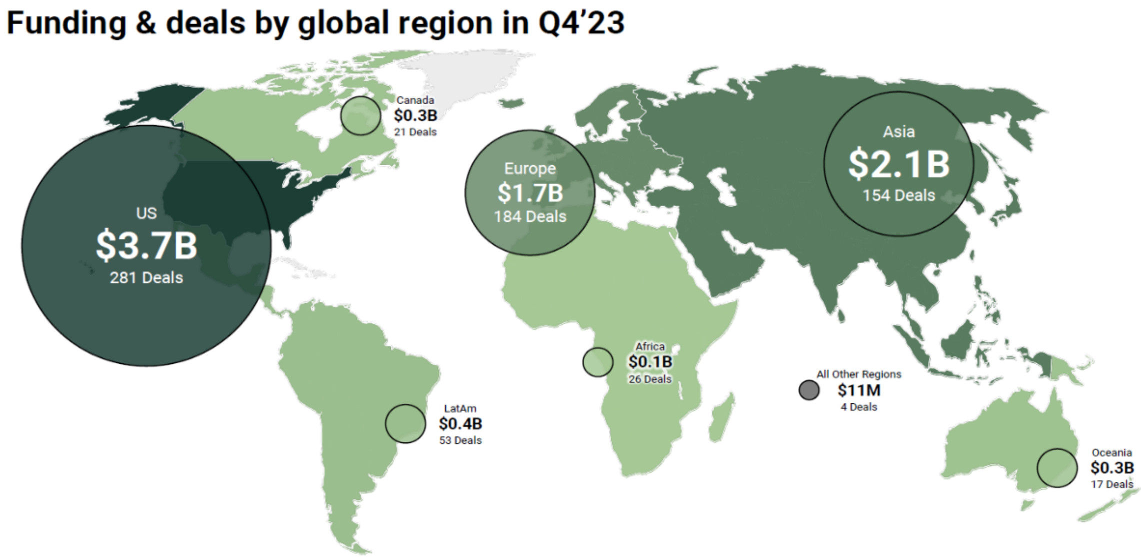


It is helpful to look at the distribution of fintech funding when analysing the overall flow of funding. The flow of mega rounds (> $100 million) helps us understand whether larger rounds drive the overall financing. The funding trend (albeit erratic) was shifting towards mega rounds post 2019 from a low of 42% of the total in Q3’19 to a peak of 67% in Q2 2021. The trend reversed with higher interest rates as the proportion of mega rounds shifted to around 30% except in Q1'23 as Stripe's growth round of $6.9 billion was one of its kind.

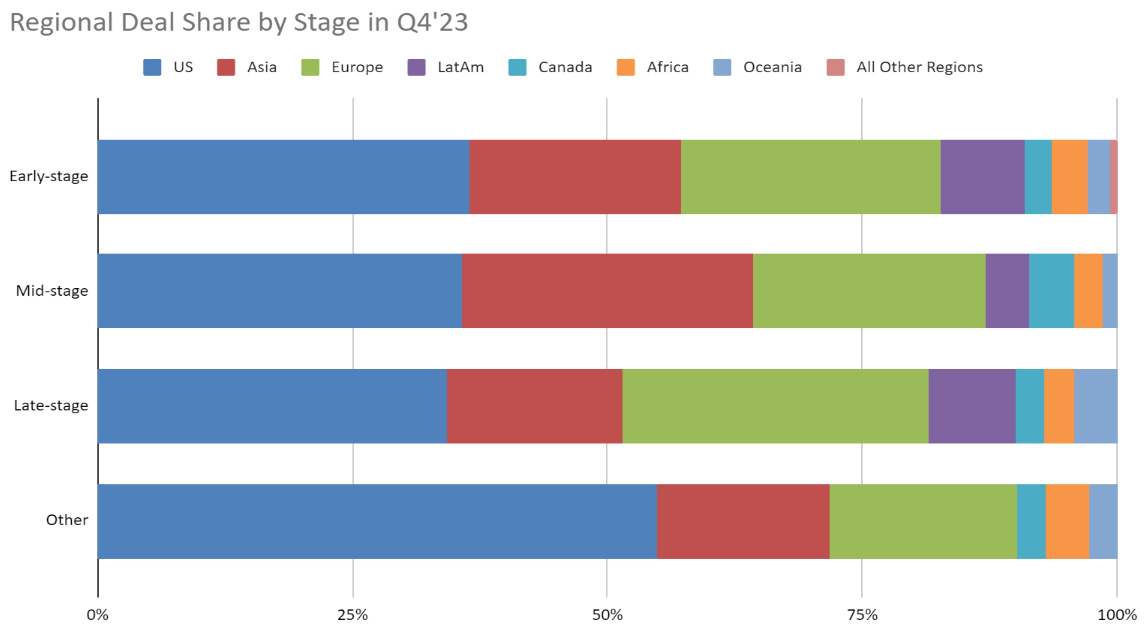
Source: CBInsights

Funding Across Regions

The United States accounted for majority of funding in Q4'23 followed by Asia and then Europe. This trend is followed both in terms of value and number of deals. The access to financial markets and future market potential for financial technology explains why the USA accounted for roughly 43% of the overall funding in Q4'23.



Source: CB Insights

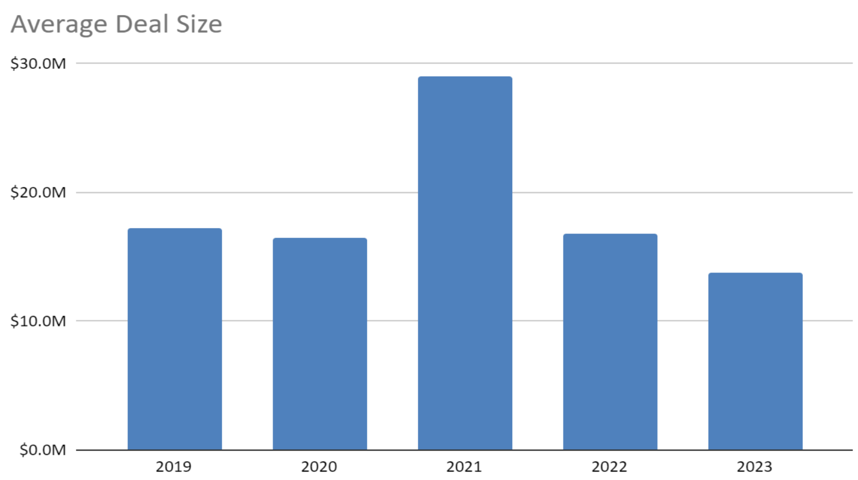


The distribution of funding is uneven across different stages in each region with some geographies performing much better in some stages. The US performs consistently well across each stage as it accounts for one third across early-stage, mid-stage, and late-stage rounds. This success is even greater in others (This would likely account for Post Late stage rounds). It is interesting to note

that Asia has captured 29% of the funding in mid stage but only 17% of funding in the late stage which can be an indication of market's immaturity in raising late-stage capital relative to US. Europe, on the other hand, has been able to raise 30% of the late-stage capital. While Asia may have seen an uptick in the share of late-stage in overall fintech funding, much of the activity is driven by markets like India, China and Singapore.
Source: CB Insights

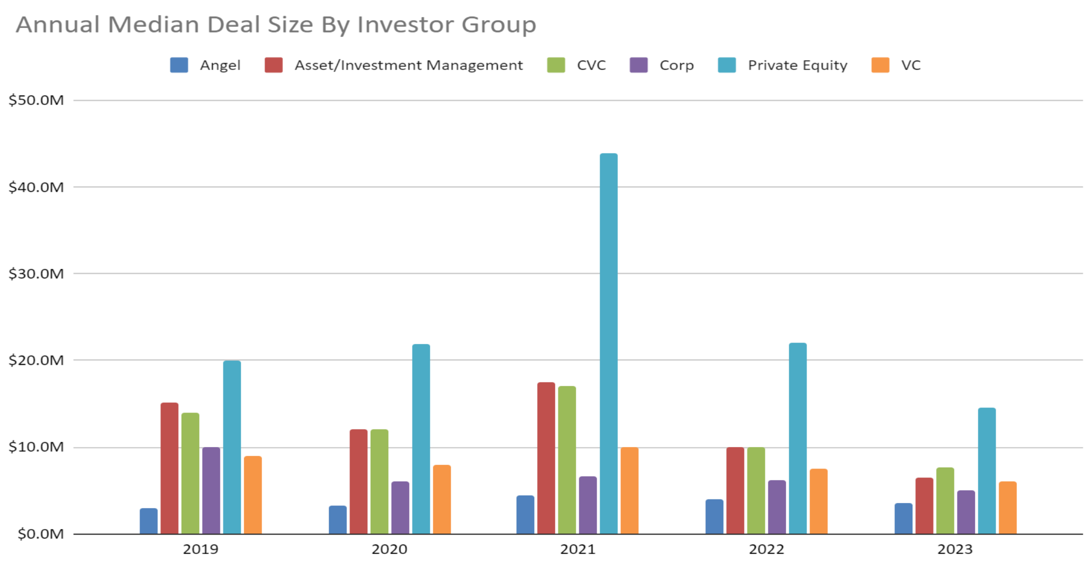
Average Deal Size

Observing the average deal size, it is easy to tell that the aggregate funding volumes have fallen due to a change in average deal size, so the number of deals has also followed a similar pattern which can be observed in the quarterly breakup of funding amount and number of deal data observed above. However, it is imperative to notice that the average deal size in 2023 is 16% lower compared to the pre-pandemic mean in 2020. A complete recovery will probably take some time for Fintech as sustainable growth is experienced.

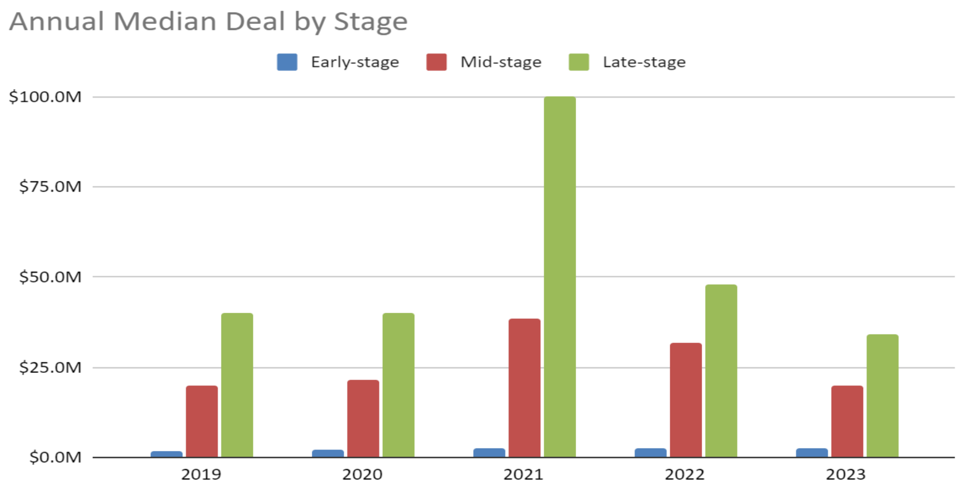


Source: CB Insights

Funding Data across Investor Group



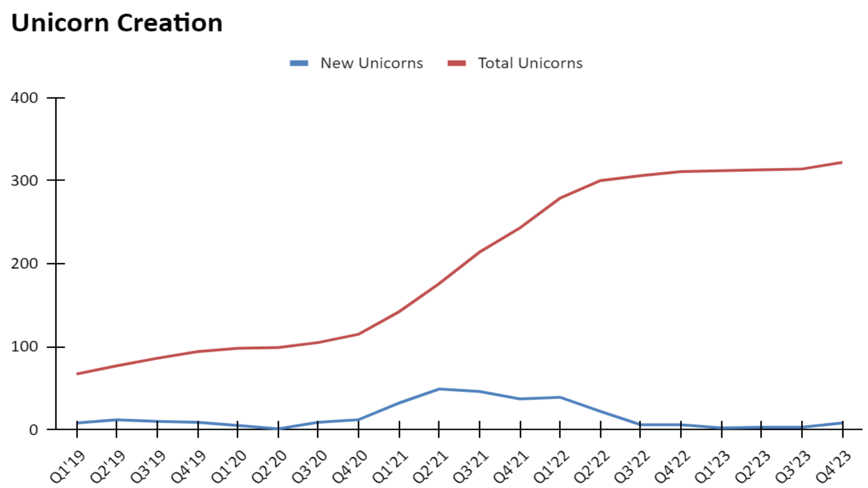
The funding from all investor groups follows the overall global macroeconomic trend where values peak in 2021 before falling back in 2023. It is important to note that the change was most noticeable in Private Equity which doubled in 2021 but has since more than halved. However, the decline has slowed down in 2023 since the valuations are closer to the fundamentals of the business.
Source: CBInsights



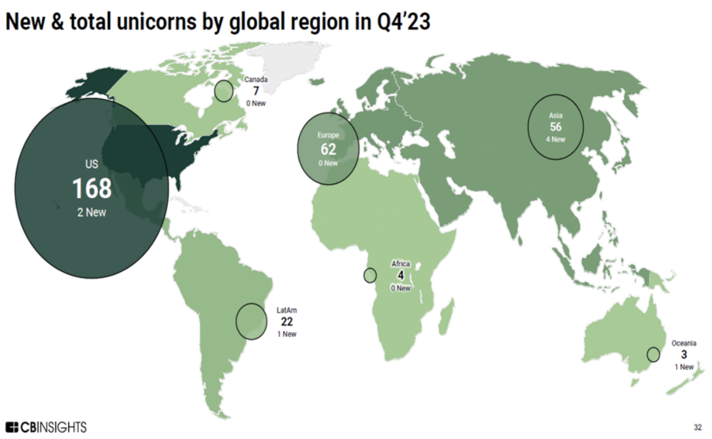
Stage-wise breakdown reveals an interesting trend, showing that average ticket size in early stage deals has held on its own and stood at $2.4M in 2023. This is not substantially lower than $2.5M the year before and $2.6M during the frothy market of 2021. However, the story is quite different for relatively bigger companies. For mid-stage, the mean ticket size of the deal has receded to $20M, down 37.1% YoY. Similarly, the average deal size at late stage has contracted by 29.3% YoY to $34M — lower than even the 2019 levels.
Source: CB Insights

Unicorn status

Market conditions are reflected in the number of unicorns, as valuations have adjusted due to macro environment changes. The increase in unicorns has reduced post 2022 as fintechs are focusing more on value creation rather than growing un-sustainably. There is an uptick in unicorns from 3 to 8 in Q4'23 possibly indicating a mean reversal, however it will be premature to believe that this trend will be sustainable in the long term.

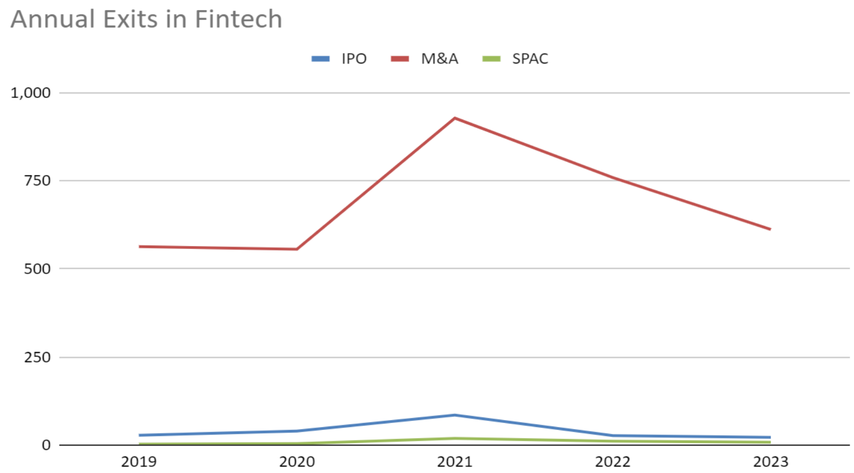


Source: CB

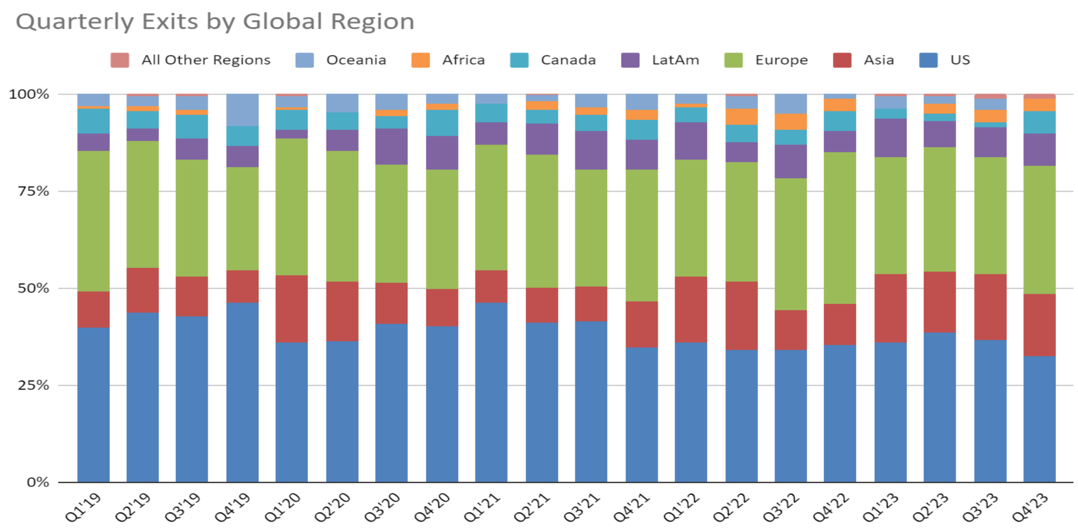


Source: CB Insights

Analysing the distribution of unicorns across the regions tells a similar story where the US is leading in terms of the number of unicorns with Europe and Asia competing for the second spot. However, the growth in unicorns is focused more on Asia as it has 4 new unicorns while the US has 2 new unicorns. This can be explained by the future growth potential as Asian economies like India are showing promising growth



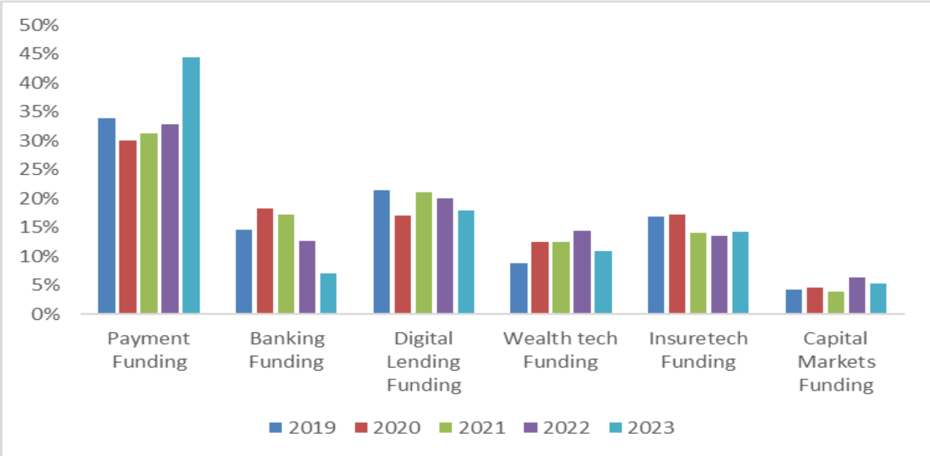
The sector has seen a downward trend in exits over time due to shifts in valuation which have been explored above. This also reflects that the market has reached an inflection point for a rebound in exit activity as the market expects the central bank to reduce interest rates and the growth in demand to continue. Current macro environment is not the most viable for taking an exit as a lot of investment in the sector comes from PE or VC sources which requires a significant payoff to justify the risks involved.



Source: CB Insights

The proportion of quarterly exits is roughly the same across each region with some variations across the quarters. In the current year, the US and Europe account for one third of the number of exits each.

International Funding according to Business Verticals



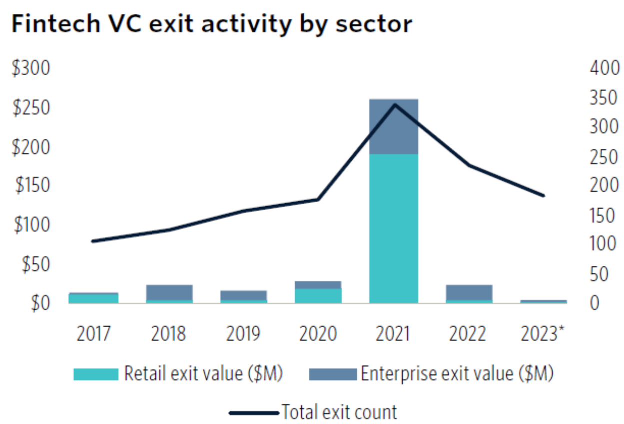
Source: CB Insights

Dissecting the annual funding across different business segments in the Fintech sector allows us to understand the inclination towards a certain kind of business. Most of the segments have accounted for roughly the same size of the pie across the years. However, Payment Funding is an anomaly as it has achieved a jump of 10% in 2023 funding proportion (at the cost of banking funding). This could be attributed to the growth round raised by Stripe of $6.9 billion.
Source: CB

VC deal activity across the sector

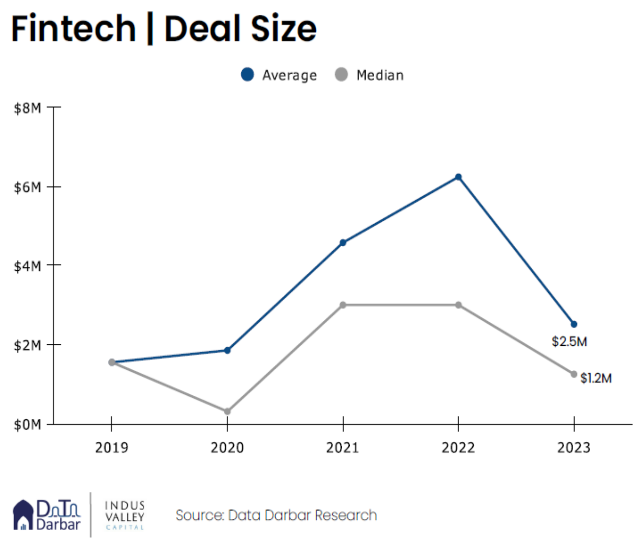
While funding towards fintech has decreased to $34.6 billion in 2023, a 43.8% decrease from $61.4 billion in 2023. VC funding reflects another change apart from a shift in the cost of capital as the ratio of B2B to B2C allocation has increased. The bias towards B2B is indicative of better exit opportunities, and higher competition in the B2C space. Businesses are generally able to capture more stable revenues which also allows the fintechs to tap into larger markets.

It is important to note that Q1 2023 saw Stripe's fundraising for a $6.9 billion growth round which was a significant portion of the enterprise deals in the last year. Source: Pitchbook

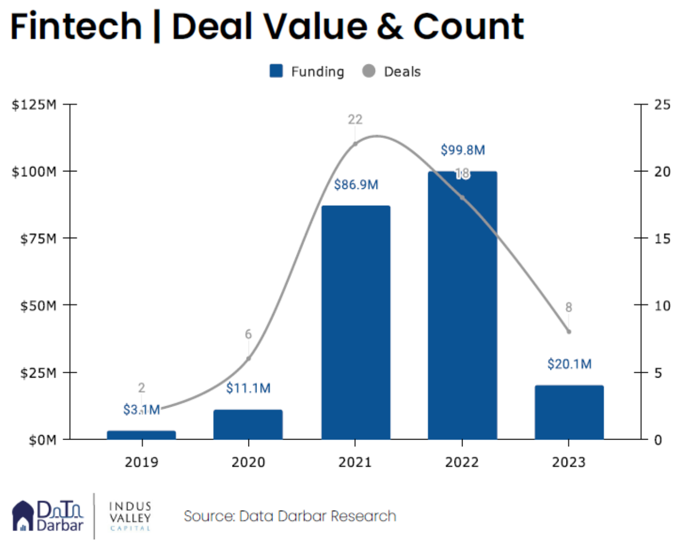


Pakistan Deal Review

Over the past five years, Pakistan's startup ecosystem has oscillated between extremes. Fintech also mirrors the overall funding trend with a Gaussian shape and witnessing a sharp correction after hitting a record in 2022 by dollar value. In the outgoing year, the sector raised $20.1M of capital, down almost 80% compared to 2022. With eight deals, fintech dominated the total deal count in 2023 though the number is only a fraction compared to its peak of 22 seen in 2021.



However, this is well in line with the overall funding trends as investment activity witnessed a sharp correction towards the end of 2023. Total amount plunged 77% to almost $76M, helped by the inclusion of delayed rounds like Retailo's $10M that was originally part of its Series A in 2022. As a result, the capital raised managed to exceed the 2020 level. On the other hand, the number of deals slipped 41.8% to just 39, the lowest since 2019.



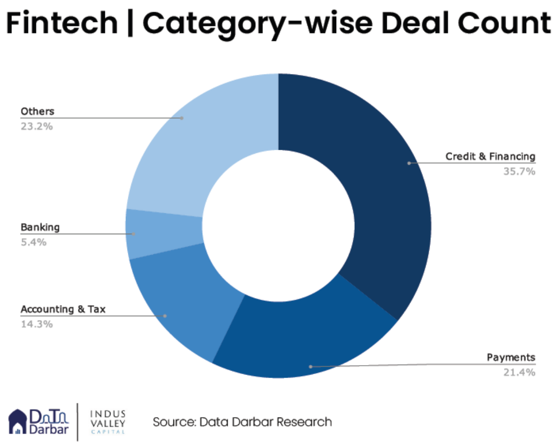
Looking at a five–year horizon, fintech startups managed to raise a cumulative $221M across 56 unique deals. Over the same period, overall venture funding stood at $858M across 259 deals, thus putting the sector's shares in value and volume at 25.7% and 21.6%, respectively. This is only next to e-commerce, which accounted for 46.4% of the amount and 21.2% of the deals during the period under review. Fintech deals saw steep contraction after peaking in 2022 as the average ticket size plunged 59.7% to $2.5M. This is less than half of e-commerce and slightly lower than transport and logistics as well. Meanwhile, the median shrank 58.3% to $1.2M in 2023. narrowing its gap with the average to the worse level since 2019.

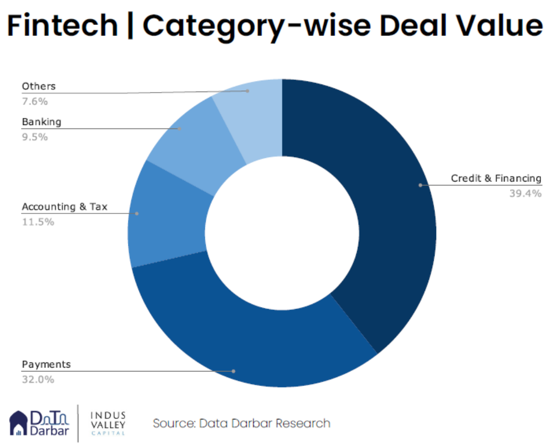
Fintech | Biggest Deals

Startup	Category	Amount	Year	Stage
	Banking	$17.6M	2022	Seed
abhi	Credit & Financing	$17M	2022	Series A
QISSTPAY	Credit & Financing	$15M	2021	Seed
NAYAPAY	Payments	$13M	2022	Seed
TAG	Payments	$12M	2021	Seed

Source: Data Darbar Research.
Note: Sadapay was not included in this list as we do not club seed extension rounds together.

Zooming in at the category level, we find that credit and financing was the most-funded vertical and made up almost two-fifths, or $81M, of Pakistan's total dollar investment between 2019 and 2023. If anything, the figure is understated as it doesn't incorporate companies from other sectors venturing into credit. For example, after raising big round s, almost all leading B2B e-commerce players such as Bazaar, Retailo and Dastgyr launched their buy-now-pay-later (BNPL) products. Payment companies followed behind with 32% of the sector's funding, led by Sadapay and Nayapay. Accounting and tax service providers also made it to the list, even though deals in the sector have almost halted since at least mid-2022.



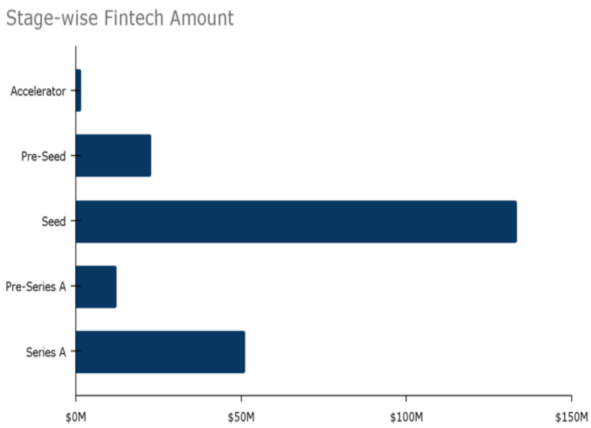


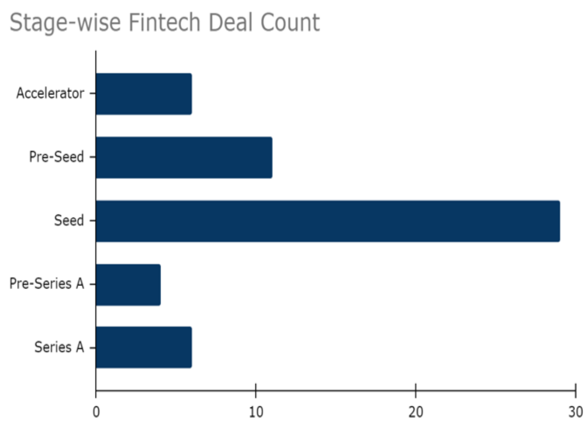
Similarly, the volume-wise trend was almost identical with credit and financing making up 35.7% of all the deals between 2019-2023, followed by payments at 21.4%. Accounting and Tax again made it to the third place, at 14.3%, owing to the rounds closed in 2021 and 2022. Almost a fourth of the deal count went towards "Others", which includes verticals like insure-tech and investments & savings.

Though fintech remains one of the more funded sectors, it does not have a single name in the list of startups that have raised the biggest rounds. The largest deal in the space was D-Bank's $17.6M seed round in 2022, followed by Abhi's $17M Series A. That's because the sector's still quite early with only four startups having reached Series A to date. Expectedly, seed rounds account for more than half of all deals in the sector.

Valuation of Banks

Unfortunately, visibility on valuation benchmarks remains largely opaque for several reasons. First of all, most VC firms and companies do not share any data related to their multiples or overall market value.

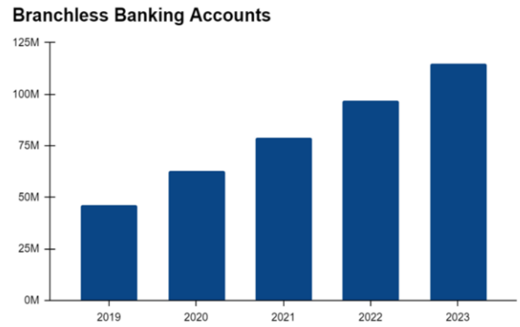




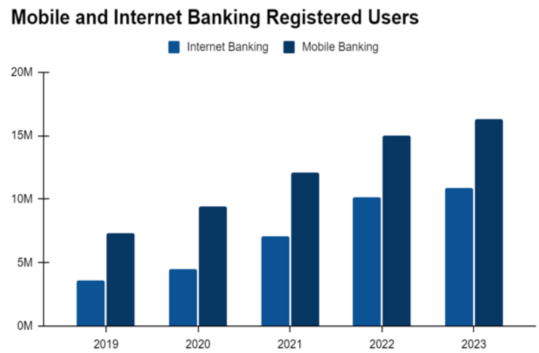
However, there have been a few isolated disclosures over the last few years, including the most recent news of Sadapay's acquisition for around $30-50 million. For context, the same startup had raised more than $17M in early-stage funding, and therefore has likely witnessed a steep discount. However, steep discounts, even those north of 50%, compared to the highs of 2021 and the hangover of 2022 are quite typical globally. During that period, Pakistani fintechs also enjoyed elevated valuations even without getting any traction. For example, TAG had announced a seed round at $100 million, while Abhi's reported valuation at Series A was $90 million. The market dynamics have changed considerably since then; deals have become a lot sparse and capital far more scarce.

Growth

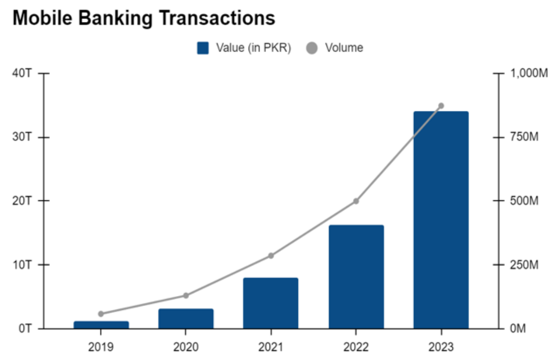
Pakistan has traditionally been a cash-based economy where currency in circulation hovers at more than 10% of the gross domestic product. While there are multiple reasons behind this, one factor is the low levels of financial inclusion, as a significant proportion of population has historically been unbanked. According to Karandaaz's Financial Inclusion Survey 2022, only 30% of the people reported to have an account registered with a financial institution. The State Bank data shows better progress with almost 177.8M accounts as at June 2023. Of this, 107M were branchless while the remaining 68M belonged to scheduled banks — showing that most of the growth in banked population has been driven by mobile money players like JazzCash and EasyPaisa. However, the number of unique depositors is still low at 83M. Of this, only 64.9M are active with a little under third being women.



While the growth in scheduled bank accounts has been slow, there has been a steady increase in registered users of mobile and internet banking users. As of 2023, the former reached 16.3M while the latter stood at 10.8M.

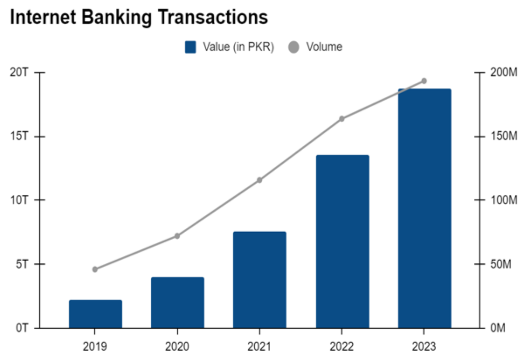


Even more phenomenal has been the surge in transactions, where mobile banking has had the most exponential trajectory. In 2023, the total throughput via this channel reached PKR 34.1Tn while volume hit 872.7Mn, soaring by 109% and 74.7% over the previous year. For context, the total value and number of transactions were just PKR 1.2Tn and 58.3Mn in 2019. By Q3'23, MB had become the single largest channel, overtaking ATM in terms of volumes.

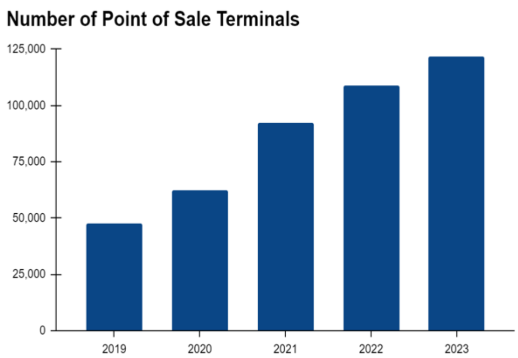


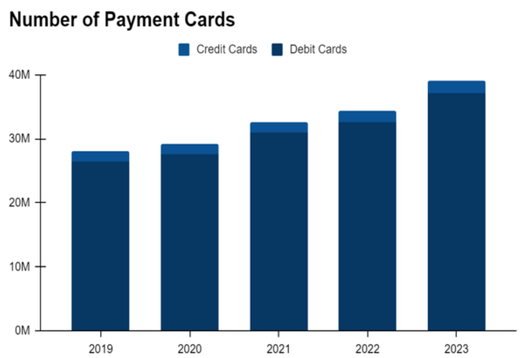
Though internet banking grew at a lower place in comparison, it has been nothing short of impressive. Total throughput through the channel clocked in at PKR 18.7Tn across 193.3M transactions in 2023, rising by 38.3% and 18.1% respectively over the previous year. As MB becomes more popular, internet banking is tilting towards businesses for use cases like B2B payments or salary payments. As a result, its average transaction size stood at PKR 96,962, the largest of any channel by far.

However, both internet and mobile banking are largely for P2P account-based transactions. In contrast, the uptake of merchant-based transactions remains much slower as evidenced by the fact that as of 2023, there were just a total of 7,630 e-commerce merchants registered with the banks and only 121,789 point of sale terminals deployed. One of the biggest reasons behind this is the low levels of card ownership: the total number of credit and debit cards were just 2M and 37M. Furthermore, the existence of merchant discount rates, which can vary between 1.5% and 2.5% depending on the channel, also prevents the uptake of such transactions.

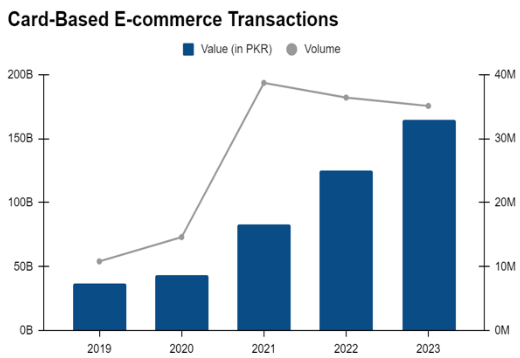


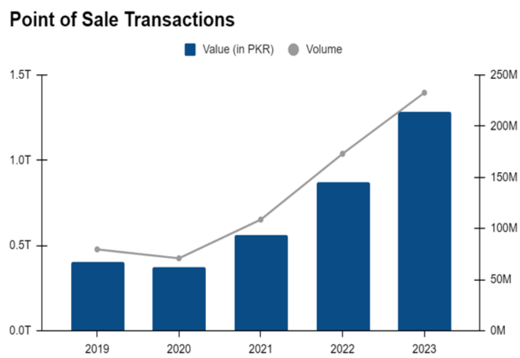
While such hindrances remain in place, the past couple of years have seen a renewed momentum in POS where the number of machines rose from 47,567 in 2019 to reach 121,789 by the end of 2023 as newer players like Meezan Bank, Paymob and OPay entered the acquiring business. On top of that, regulatory changes by the SBP encouraged incumbents to invest more, which helped the industry throughput to reach PKR 1.3Tn across 232.5M transactions.





On the other hand, card-based e-commerce has seen headwinds as the number of transactions peaked at 38.7M in 2021 on the back of aggressive discounts by venture-funded startups. Since then, the volumes have not reached the same level again and closed 2023 at 35.1Mn. Nevertheless, there has been a steady increase in throughput, which rose by 31.8% to PKR 164.4Bn in the outgoing year, almost identical to the inflation.





Growth Drivers

While the early origins of fintech adoption in Pakistan traces back to the onset of branchless banking and the initial transition towards digital wallets, including JazzCash, Easypaisa, SimSim, and Keenu, the inflection point came right around Covid-19. To discourage the usage of cash, the SBP directed[17] all banks and MFBs in March 2020 to waive off charges on online interbank fund transfers. The results were almost immediate as interbank fund transfers (1IBFT) transfers reached 70.77 million in July-October, surging by 309.6pc over just 17m in the same period of last year. Against 40.43m recorded in the preceding four-month period of 2020 (March-June), the growth rate was 75pc[18]. While the fees were reinstated a year later, it triggered a behavioural shift which has helped continue the momentum in payments digitization.

Around the same time, the SBP also launched Raast, which provided an instant payment rail between banks, MFBs and other regulated entities. While the first module was bulk payments and hasn't yet taken off, the second phase of P2P transfers shot up soon after the release. During January-March 2024, the total volume under P2P reached 140M with throughput of PKR 3.4 trillion[19]. Though the true potential of Raast is yet to be realized as newer use cases, such as merchant transactions or request-to-pay, are yet to commercialized on a mass level, it has created an infrastructure for regulated entities and encouraged fintechs to build innovative products.

One such example is 1GO, an interoperable QR code on Raast for retail transactions which allows aggregators like KuickPay or PayPro to acquire merchants and enable seamless payments. Another area where the regulatory interventions are beginning to reap dividends is the EMI wallets, which processed 22.9 million transactions worth PKR 62.1 billion during January-March 2024. More importantly, these digital wallets have opened 3.2M accounts and onboarded more 184,000 freelancers.

On the lending side, the SECP's progressive approach towards licensing, beginning with Tez, has attracted new players into the fold with their newer models, such as financing of consumer and education products through BNPL, SME credit for payroll or invoices, or even nano loans. A major enabler in this regard has been the regulatory sandbox, through which fresh products on p2p lending and real-estate tokenization have come through.

Where AP can potentially come in

While the opportunity in fintech is quite big, the entire sector may not align with Accelerate Prosperity's investment thesis and mandate. Given that AP relies on subsidized debt, which cannot be used for onwards lending, of around $200,00 ticket size, some of the major verticals may not best suited.

Payments: Since payments is a regulated business, the cost of entry is quite high and requires significant upfront investment as companies bear licensing and other compliance costs out of pocket for years before monetizing at all. As a result, they need equity capital, that too in millions of dollars, which is used for building the early technology infrastructure. Though debt can be

[17] https://www.sbp.org.pk/psd/2020/C2.htm
[18] https://www.dawn.com/news/1591782/state-of-the-digital-economy
[19] https://insights.datadarbar.io/pakistan-digital-payments-q3-fy24-update/

valuable later on, they typically need bigger ticket sizes and as such may not ideally fit into AP's thesis, sparing exceptions. Secondly, it has been one of the most funded vertical in Pakistan's fintech sector, suggesting that investment options, including from foreigners, are still available even if more scarce.

Financing: It is the most funded vertical in Pakistani fintech, attracting 39% of the dollar value and 35.7% of the deals between 2019 and 2023. Again, this hints at the fact that capital is available, especially for early-stage product and technology development expenses. Like payments, credit is also regulated and thus requires upfront money for licensing related costs where large sums of equity are required. Once the loan disbursements start, lending startups do need debt financing in order to build their book but since AP money cannot be used for onward lending, it eliminates most players in the sector.

Investments/Savings: Pakistan's formal savings and investments ecosystem is quite underdeveloped, with only 0.2% of the population having a mutual fund account[20]. Similarly, the number of accounts with stock market account hovers only slightly above 300,000. In part, this gap can be attributed to the distribution challenges of legacy asset management companies and brokerage houses. However, technology has the potential to disrupt the status quo and reach masses in a cost-effective manner, as markets like India have already shown where Zerodha and Upstox have brought millions of new investors to public equities. Early signs from Pakistan also point to the same, as digital already make up for over 15%[21] of all mutual fund accounts till date.
However, the progress is still quite limited for multiple reasons. On the public equities side, no tech-first player operates and the market remains well under the control of legacy players who primarily rely on proprietary trading. Though relatively better, due to the existence of companies like Mahaana Wealth and Trikl, the asset management industry is also in a comparable position. One big reason behind the lack of startups within the space is the dearth of capital, as the total share of investments/savings in fintech funding is un-noticeable, both by value and volume. Such sparse activity means companies will have to seek alternative sources of financing, where AP can offer a good deal.

Insurance:
Similarly, insurance presents both challenges and opportunities as sector's penetration remains below 1% of the GDP[22]. Like investments/savings, it is still well in control of legacy players and the lack of capital restricts the entry of startups with innovative products and distribution models. Local and foreign equity investment is almost next to none, which hinders the industry's growth. In such an environment, AP can plug in the gap and ticket size may not be a barrier since most startups depend on distribution-driven partnership models instead of obtaining the licensing themselves, which raises the financing needs.

Key Impediments for Growth of Fintech Startups in Pakistan

Some of the key impediments for growth of fintech startups in Pakistan that were highlighted during research for this project have been highlighted below.

Lack of Financial Depth:

[20] https://tribune.com.pk/story/2405777/unpacking-south-asias-mutual-fund-landscape
[21] https://www.mufap.com.pk/Upload/WebDoc/Communication/YearBook_2023543.pdf
[22] https://www.dawn.com/news/1789413

There is a financial risk to fintech companies due to the lack of financial depth of a majority of fintech startups operating in Pakistan. This can lead to disruption of services or bankruptcy in extreme cases as there is not enough capital being put behind these companies to stop the gap in the event of a tech breakdown or an infrastructure shift due to regulatory compliances.

Most of the existing Fintech services in Pakistan are owned by well-established banks and institutions. The large size and scale of these institutions making it difficult for Fintech startups to compete. Moreover, with the advent of digital banks, this gap will be further widened because these organisations will offer all digital financial services that are possible within the ambit of their license. The remining services or indirect services that will complement digital banking will be the only lucrative areas for fintech startups.

Low digital literacy of masses:
Moreover, there is lack of basic financial and digital literacy in a number of people living in small rural areas with high population dispersion, making it difficult to provide basic necessities to them, let along fintech products. There is a need for making digital products for rural areas that have agriculture based apps, with information on inputs, agriculture based microfinance, and household digital products for females.

Interconnect Challenges:
Some of the startups are using other organisations for offering their products, such as using the balance sheet of banks for parking credit customers. While these relationships are good in the start, there is a risk of challenges such as conflict of interest of the partner organisation creating disruption of a service for the startup. These can also result in technology breakdowns where APIs are being used of third parties to reduce cost, which may lead to infrastructure breakdown of the master organisation thereby resulting in business loss of the startups whose services also get disrupted as a result of the tech or infrastructure breakdown.

Weak internal control and oversight systems:
Emergence of fintech startups, especially those that refrain from tough regulatory regimes have the tendency of overlooking few essential controls in the interest of being quick and unique in their ability of introducing new products and services. While it is necessary to provide a wait and see approach to these startups for establishing their business and to encourage growth of fintech and financial innovation, the regulatory flexibility can create the risk of breach of internal controls. This can lead to an inadequate monitoring system and errors, failures, or even fraud. An example of this from a US based crowd funding company is stated in the corresponding box for reference.

> Lending Club Scandal
>
> The Lending Club, established in 2007, has become the United States' largest peer-to-peer lending platform. Yet, due to weak internal controls, Lending Club discovered $22 million worth of loans that did not meet its standard minimum criteria, and were sold to an investor. It was also revealed that management turned a blind eye to employees falsifying documents. After an internal investigation, the firm acknowledged material weaknesses in its internal controls over financial reporting and stressed that it would work to improve them. Some members of the board of directors and the Chief Executive Officer either immediately resigned
> or were laid off. Shares of Lending Club plummeted, and the company lost market confidence, harming the overall reputation of the country's peer-to-peer lending market.

Improve regulatory oversight and capacity:
With the advent of new technology solutions being adopted by the market and the fintech companies, it is imperative that the capacity of regulatory bodies and related supervision staff needs to be aptly developed to remain at par with the modern technology changes. The concept of regulatory sandboxes is successful in this regard, as that would give the regulator time and comfort

of seeing the new technology solutions in action, and also think about the repercussions it might have on the market, in case of an error or misuse.

Promote Standardization:
National standards for financial technologies can help promote not only interoperability and greater competition but also help manage various risks especially cyber security and risks to consumers. Examples of this type of standardisation can be QR code payments. Standardization is recommended for safer and more efficient provision of services. In jurisdictions with no standards, fintechs may offer more risky ways to access financial data such as screen scraping. There could also be risks related to the fintech services provided by operators who are not in contractual relationship with banks. Regulators can work with the banking and payment industry to reduce such risks by establishing documentation standards, and also by developing open API standards.

Instances of Fraud by Fintech Companies Globally
The use of AI and ML in fintech applications may also create entirely new risks, for instance, where decisions are taken, or functions are performed by AI-powered 'black box' algorithms without human intervention or which are not comprehensible to customers or supervisors. AI and ML's extensive use will lead to increased regulatory scrutiny, especially on the nature of (automated) credit decisions, potential 'red-lining' of classes of persons, and the privacy of user data across many applications and social media accounts that may become an acceptable conduit of developing the process of using data derived from multiple data sets when 'training' AI systems through ML.

As per statistics, identity theft was the most common type of fraud in FinTech. In the US, this issue has become so serious that some banks and payment companies have banned transfers from digital banks and fintechs because they fear getting involved in financial crime. Institutions throughout the finance sector that are operating through digital platforms are facing issues with fraud. Neobanks, are repeatedly facing regulatory pressure for weak KYC/AML compliance measures.

Regulatory Overview

Global Perspective

The impact of Fintechs can play an important role in the evolution of a country's financial ecosystem. The regulation for this segment is however a complicated topic due to the different variations of business models and technologies. It is important to keep updating the regulation in response to the changing customer requirements while maintaining customer protection, stability of financial system without choking innovation in fintech technology. Incorporation Sandbox has been a key step taken across multiple countries to build an enabling environment for startups to develop with some countries drafting delegated regulations for fintech.

Risk mitigation measures adopted for Fintech by various economies[23]:

People's Republic of China: illustrates the need for guidance and requirements to mitigate fintech risks and protect consumers. In January 2022, the People's Bank of China (PBOC) unveiled its updated Fintech Development Plan 2022–2025,28 which set out guidelines on the country's fintech development in the new era and set development goals, key tasks, and the implementation measures for digital transformation of the finance sector, which includes various measures to address risks. The guidelines suggest the following:

(i) Strengthen fintech governance, develop digital capabilities, and improve the financial technology ethics system featuring multiparty participation and collaborative governance, to build a digital ecosystem that promotes mutual progress.

(ii) Enhance data capability, promote orderly sharing, and comprehensive application of data on the premise of ensuring security and privacy, fully activate the potential of data as a factor of production, and effectively improve the quality and efficiency of financial services.

(iii) Improve the system for safe and efficient fintech innovation; build an operation middle platform that integrates business, technology, and data; establish an intelligent risk control mechanism; and fully activate new momentum for digital operations.

(iv) Speed up all-round application of regulatory technology, strengthen the capacity building for digital regulation, implement closer supervision over fintech innovation, and build a firewall for finance and technology to fend-off risks.

(v) Cultivate fintech talent, refine relevant standards

The PBOC also designed and implemented regulatory measures to control risk related to exponential growth of fintech payment services driven by Alipay and Tenpay. It also did this to reduce the liquidity risk of funds that customers had previously deposited in their accounts held by payment service providers, such as Alipay, and to prevent an operator from managing high-risk funds, it increased the control over the funds. This included raising the reserve requirement ratio to 100%, depositing reserve funds in a dedicated account at the PBOC, and payment processing via a comprehensive payment platform, NetUnion Clearing Corporation.

Republic of Korea: The country's fintech development demonstrates the power of the regulatory sandbox to help regulators enhance regulations on fintech risks while promoting fintech development. With the enforcement of the Special Act on Financial Innovation Support in April 2019, the Financial Services Commission (FSC) announced its plans for a financial regulatory sandbox to promote the fintech industry. The Republic of Korea's sandbox supports the emergence of innovative financial services while monitoring its impact on consumers and the market to provide opportunities to implement regulatory reforms.

[23] https://www.adb.org/sites/default/files/publication/885336/adb-brief-245-managing-fintech-risks.pdf

In 2019, the FSC also introduced a standardized open API platform to ensure stable operation and risk management of open banking. In July 2020, the FSC announced "Plans to Promote Digital Finance," which serves as a basis for financial service innovation and contains amendments of essential fintech-related regulations (including the Electronic Financial Transactions Act, etc.) to improve market credibility and stability. The FSC has been working to establish laws and regulations on digital assets for consumer protection and establishment of market order. In August 2022, the "Private–Public Task Force for Digital Assets" was launched and enactment of "Basic Act on Digital Assets" is under way.

Singapore's: experience includes lessons in balancing the important role that regulators can play in providing an appropriate enabling environment that supports innovation while ensuring safety and soundness measures. The Monetary Authority of Singapore (MAS) manages its dual role of supporting an enabling regulatory environment while also ensuring safety and security principles to facilitate the responsible development of the fintech industry. MAS's philosophy is that regulation should not get in the way of innovation but should carefully enable as well as monitor new financial technology products and services and continually evaluate the need to regulate them. Regulations are introduced when risks arising from innovative products and services cross a threshold or become material enough, with regulation being risk proportionate. MAS was also early in establishing a FinTech Regulatory Sandbox for new fintechs and established financial institutions to promote and facilitate testing of innovative fintech products and services.

The European Union (EU): experience highlights the important role for regional cooperation, especially in developing standards for open banking and data privacy. The EU's fintech regimes explained in the revised Payment Services Directive 2 (PSD2) and the General Data Protection Regulation are key to major EU member countries fintech policies. PSD2, in particular, presents ways to enhance consumer protection and transaction transparency while promoting fintech growth across Europe. The PSD2 defines roles and responsibilities of the payment initiation service provider and account information service provider and lays the foundation for fintech companies to access customer data and enter various payment service markets. This has enabled fintech companies to tap into bank APIs as payment initiation service providers and account information service providers and offer tailored services to customers, which has resulted in open banking implementation in Europe.

United Kingdom (UK): experience shows the importance of revising consumer protection regulations in light of developments in the fintech industry. In response to the growing interest in financial crime risk management, primarily due to increasing use of customer data by third party service providers, the UK financial authorities are expanding customer data regulations. Specifically, the UK is looking to strengthen customer authentication to prevent financial fraud and enact revised consumer data protection measures. In addition, authorities are enhancing approaches to managing and reporting financial crime risk, such as anti-money laundering, terrorist financing, and fraud. Recognizing more robust regulation related to fintech credit market, the Financial Conduct Authority has been enforcing new rules since December 2019. The regulations include investor protection, which places an investment cap of 10% of investible assets for new or less informed investors, and a minimum scope of disclosure, etc.

Central Bank Digital Currency (CBDC)
In some countries, in order to avoid long-term risk of issues and challenges that are expected to increase from growth in the fintech sector, governments and regulators have decided to start looking at the possibility of a CBDC[24]. The IMF is also helping these governments in putting

[24] https://www.imf.org/en/Topics/fintech/central-bank-digital-currency/virtual-handbook

together a standard regulatory framework for establishing these CBDCs across the world. The most amount of headway in this front has been in the Bahamas and Nigeria, where they are already in the development phase for launching it, after having done a design sprint, the pilot testing and other preliminary stages of developing a CBDC.

China

Being one of the largest markets in the world with a robust regulatory framework makes it a good reference point. However, it is important to account for the differences in regulatory capacities. China has focused on strengthening the governance systems, enhancing data capability, improving the systems for fintech innovation, and speeding up the application of regulatory technology. This has resulted in risk mitigation for its largest fintech players i.e. Alipay and Tenpay which requires a strong regulatory capacity for diagnostics and intervention. This will require a country like Pakistan to develop capacity.

Korea

Korea has focused more on the innovation side of fintech through a regulatory sandbox to help regulators to promote fintech development and mitigate risks by expanding the scope of regulations for unchartered territories. Moreover, Financial Services Commission (FSC) has worked on standardised Open API platform and new regulations like laws on digital assets. This not only creates systems for customer protection while developing the markets in terms of business models.

Singapore

Singapore has been proactive in terms of managing the balance between maintaining an enabling environment for fintech development while ensuring safety measures for customer protection. This is overlooked by Monetary Authority of Singapore where it monitors innovative products and regulations are introduced only when the risks cross a certain threshold.

EU

The unique structure of EU allows for their experience in regional cooperation in terms of Open Banking and data privacy

UK

United Kingdom has shown success in adapting to the evolving requirements of the industry by revising the customer protection regulations. This has been executed in terms of customer data regulations especially through a more stringent customer authentication to prevent financial frauds.

Country	Regulatory Approaches	Top Fintech Verticals	Sandbox/Innovation Office/Tech-sprint	Fintech Law	Fintech Ancillary Regs
Pakistan	IBR, RBR	Payments	Sandbox via SECP	No	No
Australia	FBR, PBR	Payments Wealth Tech Block Chain, Crypto assets Open Banking	Sandbox	No	Yes
Bahrain	FBR, PBR	Payments Crowd Funding Crypto Assets Open Banking & Digital Banking Big data analytics & Intelligence	Sandbox; Innovation Office	Yes	Yes
Brazil	IBR, RBR FBR, PBR	Payments Crypto Assets Insurance, Forex Digital Banking	Sandbox	No	Yes
Brunei	IBR, RBR	Payments, Crypto-assets, Insurance, Forex, and Digital Banking	Sandbox	No	No
China	IBR, RBR, PBR	Payments	Sandbox	Yes	Yes
India	IBR, PBR, FBR	Payments, alternative lending, eKYC	Sandbox	No	Yes
Indonesia	IBR, RBR	Payments	Sandbox; Innovation office	No	No
Malaysia	IBR, RBR	Payments	Sandbox; Innovation office		
Malta	FBR, PBR	Payments, WealthTech, Blockchain, crypto-assets	Sandbox	No	Yes
Mexico	FBR, PBR	WealthTech , Payments ,and Blockchain	Sandbox	Yes	Yes
Nigeria	IBR, RBR	Payments, WealthTech, Blockchain, crypto-assets	Sandbox	No	No
Saudi Arabia	FBR, PBR [Planned]	Payments, Blockchain, open banking [planned]	Sandbox [planned]	No	Yes [Planned]
Singapore	FBR, PBR	Payments, WealthTech, open banking and Blockchain	Sandbox	No	Yes

South Africa	FBR, PBR	Payments, WealthTech, Blockchain, crypto-assets	Sandbox	No	Yes
Thailand	IBR, RBR	Payments, WealthTech, crypto-assets	Sandbox	No	Yes
UAE	FBR, PBR	Payments, alternative lending, WealthTech	Sandbox; Innovation office	No	Yes
Uganda	IBR, RBR	Payments	No	No	No
UK	Functional, Principal	Payments, Insur Tech, WealthTech, open banking, Big Data Analytics and Intelligence	Yes	No	Yes
US Federal	IBR, PBRs, Product, Functional	Payments, Alternative Lending, and WealthTech	Some Planned	No	No

Regulatory Guidelines for Fintechs

Following are some of the regulatory guidelines that the World Bank has issued in their policy research paper for addressing Consumer Risks in Fintech[25] sector. These guidelines have been used to benchmark regulatory gaps and challenges from fintechs operating globally, and the available laws and regulations in Pakistan for controlling risks inherent to the fintech business.

Digital Microcredit

RISKS TO CONSUMERS	REGULATORY APPROACHES - GLOBAL
Disclosure and transparency **Content of disclosure** – Information about pricing is incomplete and not transparent (for example, range of different methods used to convey pricing, finance charges not disclosed separately from principal and fees for third-party charges not disclosed) – Inadequate access to complete information about terms and conditions (T&C)—for example, links to full T&C provided at separate location	– Require prominent disclosure of both total cost metrics and clear breakdown of costs – Require disclosure of key T&C in channel being used for transaction – Indicate specific T&C that must be disclosed in transaction channel – Require access to full T&C, including after transaction completed
Format of disclosure – Lack of standardized format for costs information conveyed via mobile phones in a format or manner that does not facilitate comprehension – Consumers may not be able to retain information in a consistent manner)	– Encourage greater standardization in presentation of fees/pricing – Require plain language without technical jargon or graphical elements affecting readability – Require standardized presentation of information adapted for digital channels (for example, bite-sized chunks of info provided in consistent manner) – Provide secondary layers of information for further details – Provide offline channels to obtain further info and assistance as well as the ability to access info for future reference

25 https://documents1.worldbank.org/curated/en/515771621921739154/pdf/Consumer-Risks-in-Fintech-New-Manifestations-of-Consumer-Risks-and-Emerging-Regulatory-Approaches-Policy-Research-Paper.pdf

Timing and flow of information – Key information such as pricing provided after completion of a transaction – Less appealing information may be de-emphasized	– Require order and flow of info to enhance transparency and comprehension, providing an intuitive "digital journey" through a transaction process – Require disclosure of pricing and key T&C earlier in transaction process – Leverage behavioural insights to encourage consumers to engage with info (for example, require confirmation to move to next stage of transaction)
User interfaces – User interface may not be user-friendly, with complex menus that are difficult to navigate	– Require user interface be user-friendly and easy to navigate, including on low-end mobile devices – Encourage consumer testing of user interfaces – Require providers to provide guidance to consumers on user interfaces
Marketing practices via remote channels – Push marketing and unsolicited offers encourage impulse borrowing – Exploitation of behavioural biases (for example, encouraging borrowing of maximum amount possible, trivializing loans) – Misleading ads targeting vulnerable consumers (for example, emphasizing benefits, hiding risks, unrealistic offers with hidden conditions, marketing on weekend evenings) – Remote nature of digital channels and rapid speed of transactions increase consumer vulnerability	– Require explicit warnings on risks of short-term, high-cost credit, and information on alternatives to such loans and helpful resources – Ban sales practices that focus on ease of obtaining credit, trivialize credit, or target vulnerable consumers – Slow down process of transacting digitally to allow consumers more time for reflection and deliberation (for example, intermediate steps/screens, adding a review screen) or appropriate cooling-off period – Require loan options be presented in manner that is beneficial (or at least neutral) to consumers and not exploitative (for example, banning default selection of maximum loan size, pre-ticked boxes which lead customers to sub-optimal options)

Unfair lending – High prices for digital microcredit – Mass marketing to consumers with little assessment of individual consumer circumstances or ability to repay (“lend-to-learn” model) – Certain business models based on high loss rates (for example, large late fees relative to size of loan) – Poor practices such as rolling over loans or encouraging multiple borrowing – Abusive debt collection practices utilizing mobile phone and social media data to contact relatives, friends, and colleagues.	– Require providers to assess the ability of prospective customers to repay loans and grant loans only where they are affordable to potential borrowers – Impose requirements that limit rollovers and multiple borrowing to decrease risk of over-indebtedness – Require enhanced monitoring of loan portfolios, particularly where automated credit scoring is utilized – Apply product design and governance rules to digital microcredit, including designing processes and customer acquisition plans to ensure that potential harms and risks to consumers are considered and mitigated – Adapt debt collection rules to prevent abusive debt collection practices utilized by digital lenders
Algorithmic scoring – Biased outcomes due to poor algorithm design, incomplete or unrepresentative input data, biased input data – Discrimination based on proxies reflecting sensitive Attributes – Consumers unaware or powerless regarding use of algorithm – Regulators lack technical expertise to evaluate algorithmic systems; proprietary nature of algorithms	– Apply fair treatment and anti-discrimination rules to algorithms – Require appropriate procedures, controls, and safeguards during development, testing, and deployment of algorithms to assess and – manage risks related to bias and discrimination – Require regular auditing of algorithmic systems by external experts – Ensure transparency to consumers regarding use of algorithms – Provide consumers with right not to be subject solely to automatic processing and the right to request human intervention

Regulatory perimeter – Unlevel playing field for different types of providers, with often weaker rules for non-bank lenders – Regulatory gaps for app-based lenders, who may not be covered by any regulatory authority and/or may be based in another country.	– Ideally, establish activity-based framework covering all providers of digital microcredit (banks, mobile network operators, non-bank lenders) – Where activity-based approach is not feasible, be opportunistic and build off of existing rules and power to cover non-bank microcredit providers – Coordinate with domestic and international regulatory authorities – Consider regulating domestic agents and intermediaries of foreign fintech companies – Pursue complementary, non-regulatory measures, including industry codes of conduct and working with mobile platforms to establish and enforce rules in key areas for app-based lenders – To address gaps in the coverage of cross-border fintech activities, consider range of measures—including applying a country's FCP requirements (and regulators' mandates) to fintech providers dealing with consumers in that country, regardless of where the providers are based. Also consider supporting coordination and cooperation between authorities to assist with enforcement of relevant requirements

Peer to Peer Lending

Gaps in regulatory perimeter: – P2PL is not adequately covered by a country's Financial Consumer Protection (FCP) regime, and borrowers and lenders/investors receive even less protection than applies to traditional lending	– Apply FCP requirements on an activities basis (lending and investment-related services), rather than by institution type – Extend existing FCP requirements to P2PL and, where necessary, introduce additional FCP rules for P2PL – Issue regulatory guidance to address uncertainty regarding the application of existing FCP requirements to P2PL (Also, see approaches for addressing cross-border risks summarized above in the context of digital microcredit
Fraud or other misconduct: – Fraud or other misconduct by P2PL platform operators, related parties, or third parties	– Impose licensing/registration and vetting and competence requirements on operators and related parties – Require operators to have in place adequate risk management and governance arrangements – Require operators to segregate consumers' funds and deal with them only in prescribed ways – Consider compensation funds – (Also, see below for approaches to address platform/technology vulnerability risks that may facilitate fraud).

Platform/technology unreliability or vulnerability: – Platform/technology unreliability or vulnerability that causes or facilitates loss, inconvenience, or other harms	– Require operators to have in place adequate risk management and governance arrangements – Require operators to comply with targeted risk management and operational reliability requirements, including for technology-related risks and outsourcing – Impose specific competence requirements on operators in relation to matters such as information technology–related risk.
Business failure or insolvency: – Business failure or insolvency of operator, causing loss, such as of lenders'/investors' capital or future income on loans or borrowers' committed loan funds or repayments	– Require operators to segregate consumers' funds, hold them with an appropriately regulated entity, and deal with them only in prescribed ways – Require operators to have in place business continuity and hand over/resolution arrangements – Require operators to comply with record-keeping requirements to support business continuity arrangements – Impose vetting and competence requirements on operators and related parties
Inadequate credit assessments: – Inadequate credit assessments, increasing the risk of losses from borrower defaults for lenders/investors and over-indebtedness for borrowers	– Impose creditworthiness assessment requirements on operators regardless of whether they are the lender of record.
Conflicts of interest: – Conflicts of interest between platform operators (or their related parties) and lenders/investors or borrowers, leading to operators and related parties to engage in conduct not in the interests of their consumers: – Conflicts of interest leading to imprudent lending assessments by operators – Conflicts of interest leading to unfair or inappropriate loan pricing – Conflicts of interest from intra-platform arrangements causing operators to engage in conduct favouring related parties over consumers	– Impose general conflict mitigation obligations on operators – Require operators to comply with duties to act in consumers' best interests – Require operators to meet obligations regarding fair loan pricing and fees and charges-setting policies consistent with consumers' interests – Place restrictions or prohibitions on operators or their associates investing in loans facilitated by their platforms – Impose creditworthiness assessment requirements on operators regardless of whether they are the lender of record.
Inadequate investment-related information: – Lenders/Investors are not provided with adequate investment- related information, including: o Inadequate up-front information when considering or making investments/loans	– Require platform operators to provide/make available to consumers ahead of any transaction information highlighting key matters relating to P2PL, such as expected risks, factors affecting returns, and restrictions on early exit – Require platform operators to provide key precontractual information about individual loans to prospective lenders/investors in business models allowing individual loan selection

o Information being provided in an inadequate format o Unbalanced or misleading marketing regarding P2PL investment/lending opportunities o Inadequate ongoing information about the performance and status of their investments/loans	– Mandate warnings or disclaimers in key contexts to highlight risks for consumers and assist in balancing out inappropriately optimistic perceptions – Require platform operators to give key information appropriate prominence on electronic channels – Require key information to be provided in a standardized format to assist clarity and comparability – (Also, see approaches for risks from digital disclosure summarized above in the context of digital microcredit) – Require platform operators to comply with general prohibitions against providing misleading information (and, when necessary, clarify via more specific regulatory guidance the application of such prohibitions to marketing of P2PL opportunities) – Impose targeted restrictions on specific P2PL circumstances presenting higher risk of misleading investors – Require platform operators to provide ongoing information to lenders/investors at prescribed times or frequencies regarding matters affecting their investments/loans specifically, such as defaults and changes to borrowers' circumstances, or more generally, such as performance of the operator and adverse events.
Harm due to lenders'/investors' lack of sophistication or inexperience: – Such as taking on risk of loss they cannot afford or do not understand	– Impose lending/investment caps on less sophisticated or more vulnerable lenders/investors (jurisdictions have done so on a variety of bases) – Impose caps on the amount that individual borrowers may borrow through P2PL platforms as another way to reduce risk of loss to lenders/investors – Consider compensation funds
Borrower fraud: – Loss for lenders/investors due to borrower fraud	– Require platform operators to comply with risk management requirements referred to above, as well as targeted requirements such as to obtain appropriate identification information and implement measures against fraudulent access to their platform (know your customer requirements under anti-money laundering and countering the financing of terrorism laws would also be relevant) – Impose creditworthiness assessment requirements on platform operators regardless of whether they are the lender of record.
Inadequate loan-related information	– Extend application of existing traditional credit disclosure requirements to platform operators even when they are not the lender of record

	– Address gaps in existing borrower disclosure regimes by developing requirements specific to P2PL (Also, see approaches for risks relating to credit disclosure summarized above in the context of digital microcredit).
Risks from digital distribution of P2PL credit: – Risks arising from digital distribution of credit summarized above in the context of digital microcredit can also affect digital distribution of P2P loans to borrowers.	– See approaches summarized above in the context of digital microcredit

Investment-Based Crowdfunding

Investor inexperience and higher-risk nature of investee companies: – Small business and start-up investee companies may constitute a riskier investment for retail investors – Investors are often unlikely to possess sufficient knowledge or experience, or have access to financial advice, to assess offers – Investees may have majority shareholder and management arrangements that present risks for minority shareholders such as external crowdfunding investors.	– Require risk warnings and disclosures about key aspects of crowdfunding – Impose issuer caps—limitations on the size of an issue – Impose investor caps—limitations on individual investments/exposures – Require investor-suitability assessments to be undertaken by platform operators – Establish cooling-off periods for investors
Risks related to the nature of securities offered on crowdfunding platforms – Securities rarely traded on any kind of organized market and may have limitations on transferability investors may not understand or be able to deal with risk of being unable to exit their investment – Creation of complex hybrid securities by incorporating rights and restrictions for security holders to match issuer's needs.	– Prescribe disclosure requirements focused on emphasizing the illiquid nature of issued securities – Restrict the types of securities that can be issued – Impose targeted product intervention – Require targeted warnings – Introduce rules facilitating information exchanges and secondary trading
Consumers are not provided with adequate Information: – Crowdfunding issuers often tend to be small businesses or in their start-up phase with a limited track record, limiting the availability of information	– Introduce investment-related disclosure requirements – Introduce regulation of bulletin boards and crowdfunding trading facilities (including secondary market) to assist information accuracy – Apply fair marketing rules to investment-based crowdfunding activities

– High separation between ownership by crowdfunding investors and parties that control issuers potential lack of information provided to crowdfunding investors – Retail investors in crowdfunding securities are also at risk of misleading marketing practices, potentially exacerbated as a result of issuers being new to making public offers.	
Platform operator misconduct or failure – Platform operators and related parties may engage in misconduct under a range of circumstances that affect investors, from outright fraud to incompetent administration to undertaking unfair conflicted behaviour – Failure of a platform can leave investors without services essential to the continued integrity of their investment	– Introduce authorization and vetting requirements – Require business-/service-continuity arrangements – Require segregation of client funds – Impose rules and require policies for mitigating conflicts of interest – Apply risk management requirements of the kinds summarized above in the context of P2PL
Issuer fraud: – Consumers investing on crowdfunding platforms may suffer losses due to issuer fraud, such as sham offers or concealing or providing misleading information	– Require platform operators to undertake due diligence

E-Money

Gaps in regulatory perimeter: – Current requirements may not apply to all entities offering e-money products, and even if the licensing rules are activities based, consumer protection rules may not apply to e-money as a product given innovative differences.	– Allow e-money activities to be undertaken only by licensed entities (that may include non-banks) – Ensure consumer protection rules also apply on an activities basis to providers of e-money – Ensure that e-money is covered by any relevant definition of financial product or service.
Fraud or other misconduct resulting in consumer loss – Fraud or misconduct by issuers or related parties, including agents – Fraud by third parties	– Impose licensing/registration and vetting and competence requirements on providers and related parties

– Conflicts between interests of providers or agents and consumers (such as perverse incentive arrangements for agents), leading to consumer harms.	– Impose rules specifically for agents, including requirements for agent due diligence, requirements for agency agreements, requirements for agents to be trained and monitored, and clear provider responsibility and liability for agent conduct – Require operators to have in place adequate risk management and governance arrangements – Mandate transaction-authentication standards and require transaction-specific fraud-prevention methods to be applied—for example, limits on transaction attempts – Limit consumers' liability for an unauthorized transaction, except, for example, in case of fraud or gross negligence by the consumer – Require warnings and information about security risks to be provided to consumers – Require consumers to advise providers of matters relevant to potential fraud, such as lost or stolen devices or security credentials – Place the burden of proof on providers to show transactions were unauthorized – Require reporting of large-scale fraud/security breaches – Prohibit agents from charging unauthorized fees (Also, see below for approaches to deal with platform/technology vulnerability risks that may facilitate fraud) – Impose conflict mitigation obligations on providers to avoid conduct to their advantage inconsistent with consumers' interests, or equivalent conduct engaged in by agents.
E-money platform/technology vulnerability or unreliability: – Platform/technology unreliability or vulnerability that causes or facilitates loss, inconvenience, or other harms	– Mandate technology risk and cybersecurity-management requirements – Place obligations on operators to ensure appropriate/minimum levels of operational reliability – Require notice to users of anticipated/actual service interruptions – Make a payer institution liable for transactions not being completed as instructed
Mistaken transactions: – A consumer's funds are misdirected to an incorrect account/recipient as a result of error, rather than fraud.	– Require a mechanism that enables the consumer to view transaction details before transaction completion – Require providers to explain how to stop transfers – Require FSPs involved in a transaction to assist in resolving mistakes – Place the burden of proof on providers to show a transaction was authenticated and recorded accurately
Provider insolvency or liquidity risks: – A provider may become insolvent with insufficient funds to meet the demands of e-money holders – E-money may also not be covered by deposit insurance schemes	– Require an e-money issuer to isolate and ring-fence funds equal to e-money balances outstanding – Limit activities e-money issuers can carry out to minimize insolvency risk – Mandate initial and ongoing capital requirements

– A provider or their agents may not have enough liquid funds to meet consumer demand, such as for cash-out transactions	– Require issuers to maintain sufficient liquidity and to ensure agents have sufficient liquidity to honor cash-out obligations.
E-money not covered by deposit insurance schemes: – E-money balances may not have the benefit of deposit insurance that applies to traditional accounts, in the event of insolvency of either the e-money issuer or a custodial institution holding an e-money float (such as a bank holding a trust account)	– Deposit insurance may be extended to e-money balances or to custodial accounts holding the e-money float depending on availability of scheme in the country. An alternative policy approach is to exclude e-money balances from deposit insurance schemes. (The arguments for and against each of these options are beyond the scope of this paper but are covered in other publications referenced later in the paper)
E-money not permitted to be redeemed for face value: – Providers may seek to apply a discount beyond transaction-processing fees	– Require funds to be redeemed at face/par/equivalent value
Consumers are not provided with adequate Information: – Key product information is not disclosed/available up front to consumers – Inadequate ongoing information, such as about ongoing transactions, changes to the product, or product suspension or withdrawal – Disclosed information cannot be easily retained by a consumer – Disclosure format risks in a digital context – Misleading marketing	– Require compliance with general transparency and/or disclosure – Require public up-front disclosure of T&C and fees and charges through all applicable channels, as well as provision of written agreements at contracting stage – Require consumers to be given notice of changes – Require standard form agreement to be lodged with regulator – Require written notice of changes to be provided to consumers – Require transaction receipts to be issued – Require periodic statements to be issued and/or that consumers be able to access details of previous transactions – Require information to be in a form the customer can access and keep for future reference – See approaches for equivalent risks summarized above in the context of digital disclosure for digital microcredit – Prohibit misleading marketing in relation to e-money account – Require disclosure of provider's details in marketing materials to assist with recourse – Impose specific rules—for example, making risk statements prominent
Unsuitable e-money products: – E-money products may not be designed to be suitable for the consumer segments they are marketed to, particularly some previously unserved or underserved consumers.	– Require providers to design and distribute e-money products to meet the needs and capabilities of users in their target market – Impose individual suitability assessment requirements.

Pakistan Perspective

Financial services have a traditionally regulated space across the globe due to the involvement of public money and Pakistan is no exception in this regard. Legacy companies are regulated by either or both regulators: the State Bank of Pakistan and the Securities and Exchange Commission of Pakistan. The former oversees banking (including branchless and microfinance), payments and credit bureaus, while the latter has the mandate to supervise lending and investments/savings. State Bank has traditionally focused on a bank led form of innovation. This goes back to the Branchless Banking regulations which were introduced in 2008 and then updated in 2011 and 2016. It started off by enabling the possibility of agent-based network to reach underserved segments and evolved to reducing reliance on retailers by allowing customers to digitally transact.

Both regulators have taken a pro-active role within their own mandate to promote digitization, not only among legacy financial services players, but also encourage the creation of fintech startups. In this regard, a number of landmark initiatives have been taken, starting with the introduction of Payment Systems Operator/Payment Systems Provider in 2014, which created the first modern license for newer business models. This regime allowed non-banks to undertake payment processing and other similar functions, attracting several entrants to the market, including WebDNA Works, Foree, SafePay, and VRG among others.

1. PSOs/PSPs with Commercial Operations/Go Live Status

S.N	Name of EMI	Products/Services	Date of Approval	Status
1	1LINK Guarantee Ltd.	ATM Switch	September 30, 2015	Live
		Interbank Fund Transfer Services/ Utility Bill Payment Services		Live
		PayPak Scheme	April 01, 2016	Live
		POS Switch	July 06, 2017	Live
2	Virtual Remittance Gateway	Electronic Payment Gateway	April 17, 2017	Live
3	Webdnaworks (Pvt.) Ltd.	White Label ATMs	April 30, 2020	Live
4	NIFT (Pvt.) Ltd.	Paper Based Instruments Clearing	March 18, 2016	Live
		E-Commerce Payment Gateway	September 07, 2021	Live
5	Avanza Premier Payment Services	E-Commerce Payment Gateway	May 21, 2021	Live

EMI

The State Bank further built on this framework and unveiled the Electronic Money Institution Rules in 2019, laying the framework for payment banks for the first time. It allowed fintechs to collect deposits from customers and issue cards without the need to partner up with banks. However, EMIs need to rely on banks for settlement purposes. SBP puts some risk management checks in place with a startup capital requirement at PKR 200 Mn and ensures management quality. This opened the business for new players, most notably the likes of Finja, Nayapay and Sadapay. Despite some challenges the framework has proved successful in several ways. As of 2023 end, commercially live EMIs had opened over 2.7M e-wallets and onboarded more than 74,000 freelancers. The speed of issuing licenses has also gotten better over time which has added to the appeal of the license despite a somewhat restrictive structure of the license.

This new license allows fintechs to open accounts to offer services like transfers, bill payment, mobile top ups while relying on a settlement bank. It allows two revenue sources: Float and Services fees. When the regulations were first introduced, EMIs were allowed to invest up to 50% of their deposit amount and earn float income from it. However, the amendments in June 2023 increased the limit to 75%.

1. EMIs with Commercial Operations/Go Live Status

S.N	Name of EMI	Products/Services	Date of Approval	Status
1	M/s NayaPay Pvt. Ltd.	i. E-money wallet for Consumers ii. E-money wallet for Merchants	August 30, 2021	Live
2	M/s Finja Pvt. Ltd.	i. E-money wallet for Consumers ii. E-money wallet for Merchants	September 14, 2021	Live
3	M/s CMPECC Ltd.	i. E-money wallet for Consumers ii. E-money wallet for Merchants	March 22, 2022	Live
4	M/s SadaTech Pakistan Pvt. Ltd.	i. E-money wallet for Consumers ii. ii. E-money wallet for Freelancers	April 18, 2022	Live
5	M/s Akhtar Fuiou Technologies Pvt. Ltd.	i. E-money wallet for Consumers ii. E-money wallet for Farmers	November 24, 2023	Live

Similarly, the SBP expanded the range of services under the license in addition to easing existing limits. For example, EMIs were allow a transaction limit up to PKR 400,000 monthly (which can be enhanced to PKR 1 Million in certain cases) while expanding the scope of services allowed including escrow for e-commerce, payment aggregation, and APIs for other financial institutes. Moreover, cross border payments are enabled under EMI. This does blur the boundaries between PSO/PSPs and EMIs. More importantly, EMIs processed a throughput of PKR 222 Bn across 81.3 Mn transactions in FY23. Expectedly, the largest contribution came from funds transfers, accounting for three fourth of the overall throughput. Therefore, EMIs and PSOs are focused more on payments, while NBFC license is required primarily for offering credit products and services.

Digital Retail Bank

This is a new paradigm in the licensing space of SBP and it is still not clear what it will mean for consumers or the industry. State Bank has announced the names of five parties who have been selected as eligible for the digital license, that are easypaisa, Hugo Bank, KT Bank, Mashreq Bank, and Raqami. These are out of twenty applicants for this license from diverse backgrounds like banks, telco based wallets, and EMIs.

State Bank has defined the objectives of this license in 6 points, iterated below:

1) Financial Inclusion - Access to formal financial services for a range of services like payments, savings, credit, and third-party insurance.
2) Credit access to unserved and underserved
3) Provide affordable Digital Financial Services
4) Encourage financial technology and innovation in banking
5) Foster a new set of customer experience

6) Develop the digital ecosystem

The biggest difference between a digital retail bank, which can transition towards a digital full bank, is that its license would allow everything that a legacy bank can do: i.e. payments, credit and investments. This will help open up new revenue opportunities for the organizations and make their offerings more cost-competitive, particularly through access to cheaper deposits.

SECP NBFC Licence

The Securities and Exchange Commission of Pakistan is the other regulatory body overseeing financial services and primarily deals with areas like non-banking lending, insurance, investments (including equities, mutual funds and Modaraba). Over the last few years, it has taken a progressive approach and issued the first non-bank financial company (NBFC) licence to a fintech, i.e. Tez Financial. Since then, the NBFC has become an extremely popular route for technology players looking to enter the financing space, with a number of VC-backed players now boasting the NBFC licence. This includes the likes of CreditPer, Trukkr, CreditBook, PostEx, and Abhi among others.

However, the biggest impetus to digital lending has come from nano players, such as the likes of Barwaqt and Sarmaya, even triggering a crisis at one point. In less than two years, these two products had amassed millions of downloads in Pakistan and disbursed tens of billions in loans. However, due to the unruly practices of some entities, including extortive pricing, as well as the prevalence of unregulated organizations, the SECP strengthened the NBFC guidelines in December 2022 and then through subsequent circulars. In addition to cracking down on bad actors and removing more than 80 applications from Play Store after collaborating with the Pakistan Telecom Authority, it introduced strong whitelist criteria and price caps[26].

Key Features from Digital NBFC Guidelines

Requirement	Impact
A lender can only run one app at a time.	Rules out the outsourcing of licenses by NBFcs, which the former is engaged in.
Privacy Policy must be vetted by a law firm specializing in banking and finance.	This stops publishers from simply plagiarizing their privacy policies from elsewhere.
Publishers must disclose the markup rate & other fees, including any late penalties & early settlement charges.	It was common for publishers to understate APR and ignore service charges.
No upfront deductions are allowed.	~30% of the amount at source was service or other charges
Lenders cannot use the logo of SECP or any other government agency.	Many unlicensed and unregistered players engaged in this deception.

Data Darbar

[26] https://insights.datadarbar.io/will-pakistan-finally-rein-in-nano-lenders/

Digital Insurers

In addition to granting licenses to digital NBFCs, the SECP has also introduced a framework for digital-only insurers and micro insurers by amending the Insurance Rules, 2017. A key feature of this updated regime has been the relaxation of minimum paid-up capital requirements for both life and non-life digital-only players, thus opening the market to new entrants and encouraging competition[27]. However, the uptake has been relatively slower here as only one organization, M/S Salaam Family Takaful Limited, has yet received such a license[28].

Digital Brokers and Asset Management Companies

Similarly, the SECP and Pakistan Stock Exchange launched the license for online-only brokers, at one-time fee of just PKR 1.25 million and minimum net worth of PKR 7.5 million. This further levels the playing field by promoting the entry of newer tech-enabled players and encourage growth in capital markets, where Pakistan only has around 300,000 registered unique investors. However, there haven't been any takers for this license yet. Furthermore, the regulator also introduced the concept of digital asset management companies, wherein the existing licensing criteria was eased to encourage more competition in the industry. So far, one startup i.e. Y Combinator-backed Mahaana Wealth has received this license and is currently operational.

Regulatory Sandbox

This is one of the progressive regulatory steps from SECP which has been appreciated by the startup industry as it provides regulatory cover for the business models which are presently outside the explicit regulatory framework. It provides a closed environment for businesses to test innovative models and consultatively build out the legal framework along the way. A number of new models have been developed under this initiative including peer-to-peer lending, real estate investment tokenization among others.

[27] https://www.brecorder.com/news/40192532

[28] https://www.app.com.pk/business/secp-grants-registration-to-first-digital-insurer/

Findings from Stakeholder Interaction

Key Takeaways from Stakeholder Survey

Following are some of the key themes that were highlighted by the stakeholders that were interviewed as part of this project:

Interventions

Macro Economic Conditions

- Govt. should become serious about digitalisation
- Cash transactions should be avoided
- QR Payments should be started in 2nd tier cities also
- All G2P payments should be digitalised
- B2B digital payments should be incentivised for increasing tax net

Enhance Regulatory

- Interaction with regulators should be increased from both sides
- Collective product development needs to be done
- Fintechs should develop self disciplinary regimes
- Fintechs should increase focus on 2nd tier cities
- Fintechs applying for license should have whitelisted sponsors
- Increase transaction limits on digital payments
- Fixed Asset Tokenisation should be allowed

Sector Level Interventions

Increase Financing Opportunities

- Investor confidence needs to be restored
- Subsidised financing for increasing financial inclusion
- Local family offices should pool up for investing in fintechs
- Government should create financing opportunities for fintechs

Creation of Partnerships

- Fintechs should plan product development in joint forum
- Fintechs should work with conventional banks for financing and credit solicitation agents
- Digital banks need to collaborate with fintechs for offering services already developed
- Merchant acquisition should be made easy and efficient

Fintech in Pakistan is developing into a big industry based on the number of payments that are being digitally handled and the billions of rupees that are being transferred from G2P, B2B, and

P2P on daily basis. However, it will be important that growth in this sector is carefully planned and monitored to stay safe from the risks that were faced in other regional economies with the growth of fintech in their economies. Some of these risks and their regulatory cover have been discussed in the regulatory section below, which talks about pyramid investment schemes, and other fraudulent transactions that begin to take place as the market expands. Similarly, there is a gap in the time taken by regulators to develop their capacities based on the pace of market changes and demand created by newly introduced fintech products. While the regulators are trying to facilitate growth and development of the financial market in Pakistan, the private sector is not reciprocating in the manner required by helping the regulators in providing timely feedback on the regulatory changes that are being proposed and introduced. The private fintech associations have not been able to proactively put together proposals for regulators to introduce changes required for the collective benefit of the market, therefore it take time for the regulator to move in a certain direction without any support from the fintech sector.

Despite challenges and mixed opinion about regulatory support, the fintech market of Pakistan is growing by leaps and bounds. Some of the major achievements that need to be mentioned here include, the introduction of 'banking as a service' launched as a new product line by fintechs, which have been seen primarily for digital payments and lending. The common service in this category is white labelling and co-labelling of payment/debit cards that can be physical or virtual and can be customised to the use of the customer for enabling digital payments on e-commerce sites and other payment requirements of customers. The other successful product being commonly used by fintechs is offering credit to their customers with off balance sheet funds that are being made available to them by banks, after ensuring that credit parametres acceptable to them are complied with.

The other phenomena in this space is nano lending, which is happening at the retail level to meet short term timing differences of payments to employees of large companies or to fleet based field operators, and other similar situations where high cost debt is being offered for a short period of 15 to 30 days against verifiable receivables or guaranteed payments from the market or employer. In this regard, both existing branchless players like JazzCash and Easypaisa, and non-bank financing companies have taken a proactive role with annual cumulative disbursements running into billions of rupees across tens of millions of borrowers.

In addition to nano lending, fintechs have also started exploring the option of lending to SMEs or SEs that are still under served by conventional banking companies and need low-cost digital financial services to undertake their day to day operations in a more effective manner. Examples of such models include lending against payments, of large distributors of renowned brands, which are being collected from different parts of the country and the float is being used as security for short term working capital financing. These models are similar to invoice factoring which is also being done by logistics companies, against cash collected from the market for e-commerce merchandise and other similar transactions.

Agriculture based SMEs will also become a target area for digital banks to lend against warehouse receipts or contract farming arrangements for working capital management of farmers. This sector is one of the most under-served and can play a crucial role in development of the economy if proper win-win strategies are deployed for removing pain points of this market. Similarly, inclusion of women in the formal financial market is another area that has been identified as a challenge and potential for developing digital use cases that can ensure outreach to women according to their convenience and cultural norms.

The fintech vertical that has been discouraged the most is BNPL which has challenges such as the risk of incorrect user information provided through digital KYC channels and the general lack of credit information of the market, especially in second tier cities and people that have not yet been part of the conventional banking system. Moreover, the cost of BNPL in a market where interest rate environment of Kibor plus credit risk and margin reaches north of 50% annualised, which is a huge hurdle for growth in this vertical. In spite of this challenge, QistBazaar has already offered 45,000 such loans in the recent past. The other players in this market have started down-sizing their BNPL portfolio due to the high cost of funds, clubbed with rising cost of portfolio management.

However, the model has enabled stakeholders to try other customised use cases such as 'Education fee financing', which is more suitable in this market as credit customer in this case is a parent and more mature with a fiduciary responsibility of giving their child a better future, hence prospect of growth in this space is excepted more stable than financing retail electronic appliances and smart phones.

Overall, the stakeholders are bullish about the future of fintech in Pakistan, however there were some important enablers that will be needed to provide impetus to this growth. One of the main enablers will be the push from the government for moving towards paperless mode of transactions by introducing digitally enabled mediums like interoperable payments in second tier cities of Pakistan, where majority of small transactions take place. Retail merchants and stores can be used as conduits for cash in and cash out rather than the dependency on ATMs and few designated merchants for this purpose. Moreover, the general attitude in Pakistan of 'cash is king' needs to be changed by providing incentives to the people for making paperless transactions. Example of this is the reduced rate of sales tax on all card payments made at restaurants in Islamabad.

Therefore, fintechs in Pakistan have made their mark in all verticals due to the large gaps that were left unserved by the conventional banks, however, growth depends on improvement in overall macro-economic indicators like interest rate environment, more cards, more POS terminals, more QR code transactions and a serious drive by the government to remove paper-based transactions with digitally enabled models.

Stakeholders consulted for Primary Interaction

Following is the list of stakeholders that were interviewed for this project. The minutes of each of the meetings have also been iterated below for reference.

No.	Name	Company	Vertical	Email
1	Shershah Hassan	Kalpay Technologies	BNPL	shershah@kalpayfinancials.com
2	Vladimira Briestenska	Neem Exponential Financial Services	BaaS & SME Lending	vladimira@neem.io
3	Adnan Nasir	Bank Alfalah Limited – Head of Digital Payments	Payments	adnannasir@bankalfalah.com
4	Owais Zaidi	The Hive & Charge Up	SME Lending	owais@owaiszaidi.com
5	Noshad Minhas	Walee Technologies	Lending	noshad.minhas@walee.pk
6	Qasif Shahid	Finja	SME Lending	qasif@finja.pk
7	Ali Janjua	HugoBank	Digital Bank	asjanjua@gmail.com
8	Omar Bin Ahsan	Haball (Pvt.) Limited	SME Payment Aggregation & SME Lending	omer.ahsan@haball.pk
9	Fahad Khan	PayFast	Payments Gateway	fahad.khan@gopayfast.com
10	Asghar Hussain	Raqami Islamic Digital Bank	Digital Bank	asghar.hussain@raqamidigital.com
11	Shoaib Lalani	FinPocket	Stock Trading	shoaib@fyntros.com
12	Qasim Saya	PostEx	Logistics & SME Lending	qasim.saya@postex.pk
13	Naureen Hyat	Tez Financial Services (ZoodPay)	BNPL & SME Lending	naureen.hyat@zoodpay.com
14	Taimur Ahmed	PayPro	Payments Gateway	taimur.ahmad@paypro.com.pk
15	Shaukat Bizinjo	Strategy & Policy Advisor SBP	Regulator	shoukat.bizinjo@sbp.org.pk
16	Hasib Malik	CreditBook	SME Lending	hasib@creditbook.pk

Minutes of Meetings

Kalpay Technologies (Pvt.) Limited

Kalpay is a BNPL company started in 2021 as a final year project of LUMS. It is presently operating as a private limited company, and offers two main products, that are Taleem and Rasaai, in addition to the BNPL on e-commerce sites. The holding company of Kalpay is in the USA, which is being used for getting investments from overseas investors. The funds required for operations are being brought in Pakistan as foreign remittance from the holding company.

The main focus of Kalpay is Taleem, where student loans to deserving students are paid to universities and institutions directly. Presently the maximum loan amount is PKR 1 Mn, however with additional funding this amount will be increased to 3 Mn in future. The number of instalments for this product are 4 to 5 subject to credit score and other parametres that are used for credit assessment of the customer.

Rasaai is also a growing product, with maximum limit of PKR 1 Mn for a maximum number of 12 instalments for repaying the loan. Rasaai is more focused on deserving borrowers like Foodpanda riders who are seeking to buy a new smart phone. These loans are based on credit information from employers, such as employment period with the employer and salary etc., which is securitised to the extent of the loan amount.

Kalpay is operating with a total of PKR 120 Mn capital with 30% debt and the balance in equity. Effective rate of financing by Kalpay is in the range of 40-45% annualised return. Their effective cost of financing is around 27% based on financing from various sources. Customer demographics are 85:15 male to female ratio. Kalpay is seeking for an additional financing of PKR 30 Mn for digitalising the end-to-end transaction process. They are a team of 26 people with 2 to 3 people for field work and collection. The entire technology has been developed by an inhouse team of Kalpay.

Kalpay is presently a private limited company with no other licence for NBFC, which they are purposely postponing to save money and time for obtaining the license. In order for this they are also in talks with financial institutions to become their front-end loan originating agents for keeping the credit book off their balance sheet to the extent possible. However after obtaining a license, cheaper credit lines will be available and the speed of approval of loans also increases. Their take on regulators is that they have recently been facilitative and helpful for startups, and are always on the look out for getting feedback on any new regulations that are being introduced by them.

Total portfolio outstanding at present is PKR 70 Mn. They want to develop the tech for a credit scoring model but are presently resource constrained. Presently they are using their own credit review measures, that are subjective and also use the service of Tasdeeq, which is an external data check company that is working with a lot of startups who are in the digital and nano lending space.

The BNPL business is less than 3% of the overall credit portfolio. All vendor payments are settled within 2 days of the transaction. Education loans are being paid fully through debt obtained by the company. For this business they are looking for financing partners who will offer their balance sheet for parking these loans. One of the companies that are already on board is Taleem Finance Company which is an NBFI in Lahore. The overall split between Taleem and Rasaai is 30:70. There are presently no NPLs in the Taleem portfolio, however there are some NPLs in the book of Rasaai due to the customer profile which is usually 2^{nd} tier that are bike riders etc.

Recent deals in the space include:
- Kalpay raised USD 700,000 for a 20% dilution rate under a Safe arrangement.
- EduFi has raised USD 1.1 Mn for an approximate 15-20% equity
- Neem has raised approximately USD 2 Mn for 15-20%

KalPay uses an 8X revenue multiple for valuing the business. They benchmark their business with KistPay, EduFi and BaadMay as competitors.

Neem Exponential Financial Services
Neem is a financial services company with banking as a service as their main product. They are working on the agriculture sector of Pakistan and has inculcated partnerships with businesses working in that space as well.

In terms of financing, they are in their seed round and have already raised USD 3.6 Mn. They are looking to raise an additional USD 600,000 for development of a payments platform for delivering cheaper solutions to their customers.

Presently their lending portfolio is primarily based on the balance sheet of JS bank who has partnered with Neem for acting as a front end account solicitation agent for credit acquisition. They are working to increase their partnership base for increasing their digital lending platform.

Bank Alfalah Limited – Digital Payments
The fintech landscape grew majorly during COVID-19 as there was a push from the government about digital payments and contactless transactions. This growth was witnessed both in the consumer and retail segments. The growth in the consumer segment was mainly due to the customers' reluctance to visit branches during the pandemic, which resulted in financial management activities through digital channels such as apps or Internet banking. There was a surge in ‘Business-to-Business’ (B2B) payments due to new entrants digitizing manufacturers, distributors, and retail use cases. Notable names were Haball, Retailo, Bazar, Tajir, Dastgyr and so on.

Fintechs operating in the ‘Buy Now Pay Later’ (BNPL) vertical faced challenges due to their reliance on bank credit underwriting. This model proved unsuccessful as there was no differentiation in assigning credit limits to customers. Therefore, the recommendation for fintech is to assess the credit capacity of each customer segment before extending loans. With a population of over 220 million in Pakistan and only over 2 million credit cards issued, this segment presents significant growth potential, especially considering inflation and the preference for instalment-based purchases.

Based on the above, there are opportunities for fintechs to centralize ‘Know Your Customer’ (KYC) so merchants can lend and offer other product offerings. Retail segments have significant growth opportunities; over 2 million retailers in Pakistan are falling into Tier-2 and Tier-3 segments without formal digital means to accept payments using digital instruments. With the launch of RAAST ‘Person-to-Merchant’ (P2M), there is an opportunity for fintech to disrupt use cases and partner with Banks, which is beneficial for merchants and customers to pay using digital channels. There is also a need for a national call to allow these merchants for tax holidays followed by demonetization and tax incentives for consumers to rapidly uptake digital payments.

The Hive & Charge Up

They are in the process of selling their NBFC license due to the macro-economic situation and shrinking margins in the retail side of the fintech business. According to them Pakistan is a very painful place in terms of regulatory compliances, especially after working in other economies where things can be done more quickly, efficiently and in a more resource effective manner. Their suggestion to fintechs is to remain un-regulated to the extent possible as regulators do not have capacity to understand the business and are also not interested in bringing growth in the market. they reprimand businesses for reasons that are not even noticed by regulators in other economies.

An example of the above was that the minimum capital requirement for fixed assets tokenisation is PKR 1 Bn by the SECP, which is not commensurate with the business requirement, as it does not involve dealing with public money. They also suggested that the verticals that have potential in Pakistan are mainly payments aggregation, and bill collection. Credit card business especially at the SME level is also something that has not been done in Pakistan before and there is a dire need for starting this business. SME cards can do great in the environment where SME lending has not been at the fore front of banks from the lending stand point. The reason for this is the cost of doing business in this segment for banks, which will not be a problem for fintechs as this segment has been relatively under served by banks up till now.

They also suggested that fintechs should not be in the lending business due to the cost of funds available to them. However, payment aggregation, and bill collection are good businesses that have potential along the digitalisation drive being pursued in Pakistan by various regulators.

Walee Technologies & Financial Services

Walee technologies has developed a niche for their business which is about developing the capacity of content creators for short videos being uploaded on various platforms available in Pakistan which are based on local content. They also work with various brands in Pakistan that need digital marketing for their products, and Walee tech provides them with influencers in different verticals that are locally trained and have multiple followers. Walee tech provides the conduit for engaging the content creators with brands and businesses for digital marketing, and charges a management fee for all such contracts that are done through them.

In addition to the above, Walee tech has recently obtained an NBFC license for starting a loan bnook for all the content creators that need working capital for their work. Banks and Fis so not recognise content creators as eligible customers for credit due to their lack of understanding of digital business and the un-regular flow of income. Moreover some banks are afraid of customers that can start negative media campaigns against the bank or FI if they are unable to provide them with satisfactory service or if they apply strict credit management processes for ensuring recovery.

Walee has acquired the short video platform in Pakistan by the name of Snack video which also has streaming rights for HBL PSL for two years. According to them the total content creators economy exceeds a trillion rupees in Pakistan, with contact creators working in more than 100 cities, especially in second tier cities who have followers in thousands. Brands are specifically interested in content creators working in second tier cities, because their outreach can be very useful for brands who want to enter the second tier markets with a minimum cost of marketing using digital channels and influencers for endorsing their products.

Walee is working with more than 120,000 such content creators who are engaged in multiple platforms for uploading their digital content targeting various issues and market segments. Walee is providing free capacity building support to these content creators and are planning to give them credit services as well, based on their billing and past performance in being able to sell their content in the digital market place. Walee is doing invoice factoring against receivables from the various brands that the content creators are engaged by and provide nano/small loans for short periods till such time the receivables are realised by them. Average tenure of these loans is between 20 to 40 days. The entire credit portfolio is being created through Islamic mode of financing, due to the religious consciousness of the market, especially among borrowers in smaller cities.

Walee is looking for additional financing of approximately USD 25 Mn, bnoth in debt and equity to scale up their business in Pakistan, as well as in the Middle East where there has been a recent acquisition in the digital marketing space.

FINJA Financial Services

Fiinja was launched in 2017 with the aim of becoming the first payment service providers in Pakistan with an EMI licence, as well as the first licensed company in Pakistan for P2P lending. Initially Finja was launched in partnership with Finca Microfinance Bank on a 60:40 revenue sharing model with the latter.

Finja was the first company which provided salaries payments through a digital wallet, and also provided financing against salary receivables. However, Finja realised that credit expansion at the retail level starts to affect the quality of life of individuals who are in debt and results in the detriment of society. Therefore, they stopped doing that and started exploring the credit possibilities to retailers and small local merchants and retailers.

On the other hand, credit to retailers enable them to increase inventory and become interesting for the distributors to give them more business. Communities rely on them more due to the larger variety of commodities available closer to their door steps and they don't have to go to multiple retailers for their routine requirements or travel to far away large markets. Therefore, overall it is a win-win for the entire eco-system, where everybody benefits. They call it hyper local lending where lending is done in a close loop of purpose built loans for local stores that everybody goes to. They have developed an in house credit scoring of borrowers based on 70 variables and indicators that they have developed in conjunction with banks and financial institutions that have partnered with Finja over the years.

Based on the above, Finja has disbursed a total of approximately PKR 14 Bn worth of loans to thirty five thousand businesses in the form of 300,000 loans so far. Finja has raised about USD 13 Mn from various VCs, and is working with HBL, PMIC, Meezan and few other financial institutions as partners. HBL owns 5% of shares of Finja based on a recent deal with the bank for growth and scale up of operations.

On the operational side, Finja has seen approximately 2% delinquencies in their loan portfolio, and their rate of lending is at the average of 4% per month. They have lent PKR 1.5 Bn through their P2P credit lines so far. Limit of these retailer loans is PKR 50,000. There are other cross sell opportunities also which are being exploited for increasing share of wallet from each customer. Examples of this is offering loans for solar panels and other similar business expenses that can be provided through instant credit by Finja for their existing customers.

They have sold their EMI licence to Opay of China for USD 2 Mn but they have still not been able to collect the sale proceeds from this sale as yet. They have raised this issue to various regulators and government for helping them in collecting their money, but nobody is helping them for fear of annoying the Chinese who play a strategic role in the economy of the country and is the largest trade market for Pakistan.

Finja has suggested that there should be a national dialogue for development of a policy framework for supporting SMEs, including concessional credit and embedded finance products to develop and support the eco-system. SBP should be more proactive in putting up QR codes in second and third tier cities. They further suggested that banking as a service and embedded finance is the way forward for the eco-system in Pakistan. Fintechs should design and develop products, pilot them and banks should partner with them for subscribing to the entire credit portfolio.

HugoBank
The co-founder of HugoBank has had experience of working with the strategy team of easy paisa, which is the first fintech of Pakistan. Easy paisa was launched in 2013, and according to them India stepped later in this space. This business gained impetus when 1-Link allowed payment aggregation to asset management companies. That is time when PayPro and a few other payment aggregators joined this space and SBP asked banks to develop digital products and applications.

The main growth however came during covid times when most of the transactions were being done digitally. Card payment gateways were provided to e-merchants during this time, which was also linked with SMS aggregators for pushing transaction alerts to e-commerce customers. Then Keenu started merchant acquiring in partnership with Bank Al Habib. Now this space has evolved to the advent of five digital banks with a mandate to increasing financial inclusion especially in the SME segment and in second tier cities.

They believe that the fintech sector has been one of the main reasons for growth of technology sector of Pakistan. Now all indicators are conducive to enabling digital financial payments in Pakistan. Digital banks is the future, which will bring financial inclusion at a scale that conventional banks have failed in achieving so far. Digital banks can work with all fintechs through APIs and also use large retail companies like fuel stations, logistics companies (TCS and M&P) and major retail outlets as conduits for cash in and out. They believe that BaaS will evolve in open banking eventually, which will be a positive change in the overall digital financial space.

Haball Financial Services
Haball was launched in 2016 as a payment aggregator for businesses who are working for large retail brands like leading beverage companies. Payments of distributors are collected from different parts of the country and transferred in their accounts in a matter of hours instead of days. They also do not have a limit for a single transaction of PKR 1 Mn which is presently the limit imposed by the SBP for digital transfers.

They consider themselves as leaders in B2B payment aggregation. They are working without an EMI or PSP license and believe that they will continue to work in the un-regulated space till such time it is impossible to sustain without it. They believe that regulators in Pakistan are capacity starved and are unable to facilitate the fintech sector so far.

They work on a small margin of 5 to 10 BPS on each transaction. Their credit portfolio is presently PKR 7 Bn, which makes them the largest payment systems aggregator in the country who is working in the B2B space. For credit they rely on credit lines available from Islamic banks and financial institutions. They have also partnered with Mashreq bank for payments collection business.

They have raised financing from Zayn Capital amounting USD 1.5 Mn for scaling up their operation and building the technology. They believe that the major challenge of the fintech business in Pakistan is the macro-economic environment in Pakistan, which is stifling growth and leading foreign companies to leaving Pakistan. Globally fintechs earn approximately 2% of profits earned by banks. In Pakistan this figure is under 0.2%, due to the regressive attitude of banks towards product diversification and growth of digital financial products.

Haball has not been able to achieve growth targets by 40% due to macro-economic conditions. Valuation basis have also reduced in the recent situation to 8x as opposed to 10x in the recent past. Availability of capital is a major challenge for fintechs in Pakistan, especially because investors do not have enough trust in this sector as yet.

Haball is looking for an additional USD 2 Mn financing for scaling up their business and developing more products to ride on the digital growth rally that is imminent in the short to medium term, given the evident gap in this space.

PayFast Financial Services
PayFast is one of the few licensed payments gateway providers to e-commerce merchants. PayFast started operations in 2018 and have a PSP license from the SBP. They have seen a steady growth of 25% month on month in terms of revenues and GMV.

According to them the scale of digital payments in Pakistan through POS machines is very small, with only 121,000 POS machines residing at only 70,000 unique merchants. They have enabled direct payments from bank account of e-commerce customers, instead of using a payment scheme or card issued by Visa, Master or 1-Link (PayPak). This will reduce the cost of the transaction and will enable the transaction to remain local without having to use an international channel or payment gateway (scheme).

PayFast is presently processing approximately 400,000 transactions a month with a GMV of PKR 1.6 Bn. They work on a net margin of circa 0.7% of the transaction value. They have invested approximately PKR 700 Mn so far and are still not profitable due to the heavy technology and infrastructure cost.

Their opinion about regulators is that, regulators have trained themselves at the behest of market players and are now playing a facilitative role for fintech development and growth. However, they believe that it is better to remain un-regulated to the extent possible as a business preference, like some of their competitors who are more cost effective.

On the operational side, they believe that the B2B space has the most potential as they remain to be the most underserved. They have also started adding insurance products in the e-commerce business as an embedded finance product for increasing share of wallet and increasing cross sell of products. They believe digital payments for equity investments in stock markets has a huge potential as well. Presently customers pay their stock brokers through cheques or through IBFT and then send them screen shots for confirming and reconciling their payment, which is a time consuming and error prone system.

They are presently not lending to their e-commerce merchants, however this is another business area that they are looking to add as a product line. they are also providing invoicing solutions to freelancers for collecting their payments from international customers from across the world, by using payment gateways provided to them by the available international schemes like Visa and Mastercard. They are presently working with 14 banks in the country and 4 wallet providers as partners.

Raqami Digital Bank
Raqami is one of the five digital banks that have been provided the license of digital retail bank by the SBP in 2023. The proof of concept will be done by all the digital licensed banks by October 2024 after which they will launch their pilot programmes in the market.

Raqami is owned by the co-founder of easy paisa who understands this business much better than their peers in Pakistan, by virtue of being the oldest in this space. Raqami intends to do Shariah compliant lending throughout their products in all verticals that they will operate in. this will enable them in improving outreach to second tier cities and small communities that are presently under served by conventional banks.

They will focus on segments and partners for business development. Initially five segments will be focussed, including SME, agriculture, women, gig workers and students. They are aspiring for inculcating partnerships with fintechs and startups for inorganic growth and portfolio acquisition. They are looking to partner with fintechs that are in the payment aggregation space for scaling their business and provide financing to existing customers for growth capital and other embedded finance opportunities.

During the pilot phase they will not be allowed to accept deposits from the market, therefore the entire lending will be done from their equity. Partnering with SME credit based fintechs is being looked at, as well as financing against gold will be one of the initial products that has more impact and negligible delinquencies.

Cash in and cash out is being planned with Ubank and Jazz, along with other major retail outlets. Their core focus will be financial inclusion and covering the gaps that conventional banks have not been able to reach out as yet. The technology of their core banking system has been provided by a tech company in Bahrain, and their cards business will be on the system purchased from Euronet (an MCB owned company).

FinPocket – Retail Equity Investments
FinPocket is one of the few companies that provide the option of equity investments to small retail customers. The platform also allows investors to take advice from the analysis of stock trends that is also available for making investment decisions. However, following these trends is voluntary for customers to follow for making investment decisions.

They allow small customers to start investments in the equity markets, and there is no minimum limit to open an account. They are benchmarking their application with the foreign application called Robinhood Markets Inc. they presently have a brokerage licence by the PSX for offering their services to customers. FinPocket already has 2500 customers across Pakistan who are trading on the application by paying a brokerage margin of 0.15% on each trade value, that is done through FinPocket. They have raised USD 250,000 against 70% shares of the company under a SAFE arrangement for development of the technology for the investment application.

According to FinPocket, people in Pakistan are hungry for safe investment opportunities, and they are always looking for legal platforms to invest their money. There are almost 8 Mn accounts of Pakistani people on the Binance Application which also deals with digital currencies that are presently termed as illegal in Pakistan by the SBP.

Main challenges identified by them in the fintech space include low daily limits for funds transfer, and overall payments infrastructure is very small and weak. They identified that there is huge potential of expansion in digital savings and insurance products via fintech. SME financing and invoice factoring are also areas that need further investment and development by the fintech sector as there are numerous challenges being faced by businesses in these areas that can be resolved.

PostEx – Logistics Services with Embedded Finance
PostEx was founded 3 years ago with a focus on last mile deliveries and embedded finance. They have an NBFI licence for handling their credit portfolio. Their logistics is primarily focused on delivery of e-commerce orders across Pakistan, through their 105 offices in all major cities of the country. The number of transactions handled by them are approximately 4 Mn every month. According to PostEx the total size of e-commerce market in Pakistan is 13 Mn transactions in a month, out of which Daraz has 30% share.

PostEx has a staff of 1500 people who are working with 12000 merchants across Pakistan. The GMV of this business amounts to approximately USD 60 Mn a year. They have 4500 riders for handling the 4 Mn deliveries on a monthly basis. The riders have been hired on the basis of having their own bike, smart phone and a valid motorcycle driver's licence. The riders are also responsible for collecting the cash on delivery, which is then transferred to the account of PostEx. PostEx reconciles the collected amount and pays to the e-commerce merchant against the merchandise sold. This process takes about 10 days to complete, during which time sm. all e-commerce merchants can become out of pocket for processing further orders. To remove this hurdle PostEx has a product of paying the merchant upfront up to 70% of their amount outstanding with them. This payment is done within 12 hours of the order and the cost at which this financing is being done is 0.7% of the order value for a period of 5-7 days. The turnover from this service amounts to approximately USD 6 Mn in a month by rotating the amount four to five times.

The above is being done with the help of an algorithm built in the system which performs seller due diligence based on their performance in the past and their order book with PostEx. Although there have been delinquencies in the past, but the total has not exceeded 2% of the overall portfolio size. This business is values at approximately 25% of the overall revenue base of the company with the major share coming in from logistics services.

PostEx also offers loans against inventory to its merchants who are aspiring for growth capital. In this case the merchants pledges their merchandise with PostEx and gets financing based on the GMV of pledged stock. On sale of the merchandise, 50% amount is used by the seller as working capital and the remaining 50% is used for repayment of the loan. This loan is priced at 2.5 to 3.5% for a period of 20 to 40 days. All these loans are Shariah compliant as they are all asset backed. This enables customers to increase their inventory by getting more working capital and increasing their market share.

According to PostEx the ratio of e-commerce business as opposed to conventional retail is approximately 25%. However, during sales, the number of transactions by big brands can go up to 40,000 in a month. They also have a large movement from Karachi to Lahore in the form of 10 to 12 trucks daily as well as other vehicles who deliver the merchandise to their regional warehouses which are then delivered to the last mile by the riders.

Tez Financials – ZoodPay
Zood is an international company head quartered in Switzerland who have acquired Tez Financials in Pakistan. Now Zood is doing their entire technology development from Pakistan and are in the process of launching the Zood Mall application which is an e-commerce platform. ZoodPay is presently a platform for lending to SMEs and e-commerce merchants.

They have also developed a credit card product in partnership with Mastercard in Pakistan. They have an NBFI license and a BIN from Faysal Bank for their card business. This will be a virtual card with acceptability all over the world. Zood is working in six countries across the globe, and they are the only ones who have partnered with Mastercard in Pakistan.

Tez financials has an NBFI license for doing regulated business of cards and SME lending. Zood also wants to enter the BNPL vertical and they are looking for an additional debt of USD 1 Mn for expansion. Zood is working with 40,000 e-commerce merchants in Pakistan. Zood Mall will be their own platform place for e-commerce and the focus area of BNPL will be initially smart phones.

One of the biggest perceived challenges for fintechs in Pakistan is financing. The issue of not being able to repatriate funds from Pakistan is also a challenge which is limiting growth. For local debt, banks as for credit rating, which is not possible for startups to have. According to them, regulators are supportive, however in some cases there are over regulations, which can become cumbersome to comply with. According to them future economic outlook of the country is very bleak due to the macro-economic policies and inconsistent policies of the government.

PayPro – Payment Gateway

PayPro established in 2019, is a payment aggregator and gateway provider for digital payments. They are presently working with 1900 merchants across the country. They presently do not have any license for payments but are using the EMI license of their partner organisation, which is 1-Link and Bank Alfalah. They have applied for their own EMI license also, but that process has been put on hold for now due to the cost involved.

PayPro started with developing a banking software which would be plugged on top of the core banking application for banks. This capability has been used to develop a technology stack for P2P payments, which has been developed for digital payments. PayPro has benchmarked themselves with Kuick Pay, Blink and 1-Bill. They are linked directly with 1-Liink through APIs.

PayPro handles approximately 60,000 transaction a month with a GMV of PKR 1.2 Bn. They also offer services like PayPal where they offer digital invoicing facility to freelancers working internationally in multiple regions. PayPro has data if 250,000 unique customers based on their transaction history which they can integrate with any digital bank for their payment products.

PayPro is presently valued at UD 25 Mn, with a capital of PKR 200 Mn. They are presently not looking for additional financing. They are expecting to see growth in the digital payment space after the policy rate is reduced by the SBP. For growth they need to add more merchants for their payment solutions. It takes them three weeks to add a single merchant in the system, since most of the KYC is being done manually.

State Bank of Pakistan – Digital Payments Department

SBP is of the view that there is immense potential of digitalising the economy, but people are not willing to cooperate with the government for this. they are of the view that there are very few collective efforts by the private players to collaborate on any change in the system by way of regulation. They were of the view that whenever a new regulations proposed, SBP asks for feedback from the private sector, but nobody bothers to respond in spite of repeated reminders. This attitude of the private sector is de-motivating for the regulators to make disruptive changes for the market.

The regulatory sandbox has been launched by the SBP in December 2023, however nobody has provided any comment or feedback on it as yet. According to them SBP is always getting negative publicity in the media which is not constructive in any manner, although they have been working on removing many vices from the financial sector for the betterment of the society. The issue of nano lending was used by them as an example.

On the issue of delays in issuance of licenses, they were of the view that people apply for licenses without providing clean sources of finance, which causes the delays and SBP does not always publicise this issue in the interest of reputation of the private party and the financial system of the country. The background of ultimate beneficial owner of the sponsor has to have a white listed background for being able to partake in the financial system of Pakistan.

They were also of the view that fintech companies are primarily targeting large cities, which are already full of financially included people. Nobody is interested to work in second tier cities where there is real need for digitalisation and inexpensive financial solutions. They were also of the view that some fintechs are only interested in obtaining a license to raise money from the market, without actually working hard to create a real impact in the system. All they are interested is in big cars and houses and lose focus on the core business.

CreditBook – SaaS & SME Lending

CreditBook started by providing an accounting general ledger to grocery store merchants free of cost for handing their payments and accounting requirements. They have an NBFI license also by virtue of which they are also providing credit to their customers who have obtained their GL services.

Presently CreditBook is working on a 5% margin on lending which will be lower as more financial institutions partner with them to offer their balance sheet for parking the credit portfolio ramped up by CreditBook. Presently they only operate in the B2B market for lending and providing embedded financial solutions. Their accounting software has basic GL configuration as well as an inventory module.

CreditBook has signed up a total of 600,000 merchants that they are working with presently. Merchant acquisition is being done primarily by word of mouth, which is also saving them the cost of marketing. The businesses are saving 20% on gross margins by using the GL provided by CreditBook. The loan product is being provided for a short tenure of 7 to 40 days, which is rotated multiple times in standard loan lifecycle. Now they have also started lending to other businesses that are customers of other lenders in the market that have a reputable business and good credit policies.

Presently CreditBook is working with a lean team of 40 people. They use inhouse algorithms for analysing customer credit performance and develop lending policies based on this intelligence. Presently their NPLs which are classified under 30 days overdue are less than 2% of the loan portfolio. They disburse the loan ideally within 6 to 12 hours of getting the application. They have partnered with JS Bank and Zindagi for parking their credit portfolio. The ticket size of their loans vary from PKR 50,000 to 20 Mn. They are presently disbursing at the rate of PKR 1 Bn a month with an average outstanding portfolio of PKR 200 Mn. They are working at an average APR of 32 to 48% depending on tenure and loan size.

CreditBook has raised finance from VCs and angels, and are presently not looking for any additional financing. They believe that the regulators in Pakistan are playing a facilitative role in developing the fintech sector. They have a positive outlook towards the economy and expect growth in the short to medium terms. They expect the digital banks to bring a positive impact on the financial sector by digitalising payments and creating more space for fintechs to provide a support layer to the banks.

Annexure: Questionnaire/Meeting Agenda used for Stakeholder Interaction

As part of our methodology for this project, it will be important to get insights from key stakeholders, especially those of you who have been connected to the (fintech) space either directly by participating in it or indirectly from being a regulator or a channel provider.

In order to get focused insights on the subject, which are also in line with the scope of work of this project, we have developed the following agenda for our dicsussion with you. However, you are welcome to add any other pertinent detail also, that is based on your experience of being part of the fintch sector, which can be of use to this project and for the overall fintech sector as a learning outcome for the future.

Agenda for discussion (All stakeholders):

- What are the main features according to you of the fintech market in Pakistan
- What do you understand are the main drivers of growth of fintech in Pakistan
- What do you believe might be the main challenges of the fintech sector in Pakistan
- Do you see this sector exposed to risks like money laundering and other issues that have been plaguing the financial sector in the past such as pyramid schemes
- What do you see as element of resistance to digitisation, such as informal channels, the preference of using cash and other such barriers
- Study elements of resistance to digitalisation, such as informal channels, and flow of funds
- Do you think the issue of un-documented transactions is a barrier and should be curtailed
- Do you think regulatory controls on financial transactions are effective and adequate or do you think they need revision (if yes, how and which aspects)
- Are you aware of the risks related to loan sharking and credit management techniques in the market, given the paucity of documented information available for credit management

For Fintech Businesses only
- What are the key verticals in the fintech space that have the most potential in this market
- What were the objectives of starting this business and how far have you been successful in meeting those objectives
- What is the present legal and regulatory status of your company (type of company and licence)
- What have been the sources of funancing for your business so far, and are you looking for more financing and for what purposes
- What are the key challenges that you face in your business in Pakistan and how do you think these challenges can be overcome or resolved
- What are your thoughts about the regulatory controls in the country, in terms of being over regulated, effective or not enough
- Can you benchmark your business with other businesses in the country or internationally

- Is the tech being used by your company locally developed
- What are the salient features of the tech in lay man terms, and how does it compare with technology being used by other fin techs in Pakistan
- Do you have any partners that you collaborate with, like channels, telcos, FIs or others
- What has been your experience so far in terms of growth of the business and what were the major drivers
- What are your plans for the company in longer term (hold and grow, or exit and why)
- How do you value your business and what has been the growth in value since start of operations
- What are gaps in the fintech market that need more focus by the stakeholders