**Digital banking and the future**

[**Omar Ashraf**](https://www.nation.com.pk/columnist/omar-ashraf)

February 18, 2023

The State Bank of Pakistan has set the stage for a transformative change in the banking industry by introducing digital banks. Essentially, these banks will provide all their services through an online platform, offering customers the same services as a conventional bank, but in a digital realm, eliminating the need for physical branch visits. Likewise, the introduction of digital banks in the country would serve two purposes. Firstly, it will aid in increasing financial inclusion efforts in the country. Secondly, as a spillover benefit, it will challenge traditional banks that, for decades, have held sway over the financial sector with little focus on addressing changing market needs and have long neglected the necessity to innovate to bring customer-centric products to the market.

Currently, this void in customer centricity and innovation in the financial sector is being filled by the flourishing fintech ecosystem in the country. Estimates show that there are roughly 269 fintech companies operating in Pakistan. These companies primarily focus on mobile banking, digital payments, and lending needs of previously underserved or unserved segments by the traditional financial sector. Likewise, the future of the fintech industry in Pakistan looks promising as it is estimated to reach $35 million by 2025 and is likely to be a major job contributor by adding additional 4 million jobs to the economy.

[PM calls for OIC emergency meeting for Turkish earthquake-affectees](https://www.nation.com.pk/18-Feb-2023/pm-calls-for-oic-emergency-meeting-for-turkish-earthquake-affectees)

This potential has prompted the regulator to take a decisive stance on the digitization of banking. Presently, SBP has issued 5 NOCs to potential companies for the period of 6 months to set up Digital banks in Pakistan. These players include the pioneer of branchless banking in Pakistan—Easypaisa—and 4 international players: Hugo Bank, KT Bank, Mashreq Bank and Raqami. These Banks will go through a 5-step process to become full-fledged digital banks, including complying with the capital requirements, showing adequate operational readiness, and commencing full fledge operations.

If we compare the recipients of NOC for Digital Banking licenses, Easypaisa is the only player that currently operates in Pakistan and has already positioned itself as a “Digital First” bank in the market. Rightly so, as Easypaisa has introduced many industry-first initiatives in the realm of digital payments, lending, and platform services that focus on creating a seamless digital user experience. Likewise, Easypaisa App, according to a recent report by Data Darbar, was the most downloaded app of 2022 in the country. Signaling that Easypaisa continues to enjoy high acceptance by users in the financial services ecosystem.

[Nawaz seeks exemplary punishment for “cabal of five”](https://www.nation.com.pk/18-Feb-2023/nawaz-seeks-exemplary-punishment-for-cabal-of-five)

However, there is a lingering noise in the market that Easypaisa continues to be a loss-making entity and would struggle to maintain its position as a leader in the market. This, I believe, is not a fair analysis. It is not uncommon for pioneer institutions in the fintech space to make losses before they become profitable. They must inject significant investment to build state-of-the-art technology infrastructure, develop human resources, maintain a vibrant services ecosystem, create customer awareness, and build new behavioral patterns to onboard and retain customers. This process burns money and puts pressure on the overall financial health of the company. Easypaisa, as a pioneer company, did that for the fintech ecosystem in Pakistan. Therefore, Easypaisa’s road to profitability has been slow but now looks insightful. The company has an experienced team, over a decade of operational knowledge of the market, a strong agent network and a stamp of approval on the digital banking ambition from the regulator. The momentum is solid and Easypaisa is all set to become self-sustainable shortly.

[Miftah Ismail criticises govt for massive drop of foreign reserves](https://www.nation.com.pk/18-Feb-2023/miftah-ismail-criticises-govt-for-massive-drop-of-foreign-reserves)

As for the other players, none of them currently operate in Pakistan. Nevertheless, they are backed by investor groups that have experience operating businesses in Pakistan. Though, it would be early to say if the investor experience of the local market will help new entrants establish their operations any faster, but, it would help these players get acquainted with Pakistani market dynamics. Ultimately, helping them tailor their offerings to the needs of the local population. Interestingly, the new entrants—individually—in their respective international markets have a strong presence and offer products in areas of digital financial well-being, embedded finance, and Islamic banking, etc.

In the long run, it will be interesting to see how these banks use their experience in developed markets to replicate the same success in Pakistan and provide new and better financial products to the population of Pakistan. However, for all banks alike, certain challenges will remain strong while operating in Pakistan.

[One killed, 15 injured as van overturns in Thatta](https://www.nation.com.pk/18-Feb-2023/one-killed-15-injured-as-van-overturns-in-thatta)

Firstly, cybersecurity for digital banking systems in the country may be vulnerable to cyberattacks, which could put customers’ personal and financial information at risk. Therefore, rather than working in silos, banks should come together to form digital alliances that can help combat this issue and give each company more time to focus on the development of customer-centric products to bring the 100 million unbanked Pakistanis into the realm of financial services and enhance their financial well-being.

Secondly, strong infrastructure is crucial for digital banking services to function effectively. Despite Pakistan’s high bandwidth penetration of around 43 percent and device penetration of over 100 million smart devices; rising inflation and depreciation of the rupee may negatively impact the progress on the digital front. Without the support of enablers for digital banks, it will be difficult to maintain scale and eventually profitability for new entrants. Additionally, remote areas, where most of the unbanked population is concentrated, will require strong investment in infrastructure. Putting the new digital banks at the crossroads to choose between a strong trade-off between incurring costs on infrastructure development to expand into new markets or focusing on competing against each other for market share. Therefore, digital banks will have to carefully craft synergies amongst each other and with technology and data companies to leverage the potential of the Pakistani market.

[Pakistan reports 17 coronavirus cases in 24 hours](https://www.nation.com.pk/18-Feb-2023/pakistan-reports-17-coronavirus-cases-in-24-hours)

Finally, digital banks will have to factor in the financial literacy of the population of Pakistan which stands at 26 percent according to the Global Financial Literacy Survey. It will be a challenge and an excursion for Digital Banks to see if the customer in the market is developed enough to absorb and operate sophisticated products and services like digital insurance, saving, and embedded Finance to name a few. Nonetheless, the choice will then lie with the entrants to concentrate on a particular niche and provide customers with better products and services or venture into a blue ocean of 100 million unbanked Pakistanis with new offerings.

Digital banking is poised to revolutionize the financial landscape of Pakistan. As the first digital banks establish themselves in the country, they will pave the way for new and improved methods of providing financial services to previously underserved and unbanked segments of the population. However, this journey will not be easy. These banks will have to experiment with product market fit, invest in modern technology, introduce new ways of work and many alike. They will fail in some respects and be successful in others. All these efforts will pave the way for the industry to benefit. Therefore, to ensure the success of this new industry, the State Bank of Pakistan should extend privileged support to the first five digital banks and encourage and support them to expand their reach and truly become the bank for the common Pakistani.