Submitted to digitally add digital as 92%

SUBMITTED BY: MOAZZAM ALI SHAH (01134) MUHAMMAD MOBEEN AYUB PROJECT REPORT FINTECH INDUSTRY OF PAKISTAN IntroductionFinTech, abbreviation of Financial Technology, is the use oftechnology to provide financial services. FinTech has experienced remarkablegrowth in recent years worldwide. According to a report, FinTechs arecategorized as follows:” Traditional FinTechs work with legacy financialservice providers as technology providers using traditional pricing models. Emergent FinTechs are another type of FinTech that partnerwith a bank through modern models of engagement or simply move financialinstitutions. Financial services are important, not onlyfor a country’s economic and social development, but also for povertyreduction.

85% population does not have access to formal financial services, financial involvement is an important issue in Pakistan. The high cost of bankinfrastructure prevents the distribution of financial services out of a smallpart of the population. However, there is a passionate ability to reach digitalfinancial services and overcome the scale of scale. FinTechs only do notprovide resources to digitally add digital as 92% of senior executives and 80%agreeable to middle managers in 2016, but also play an important role inemerging markets. Can be explained as FinTechs: “ Smallcompanies and initially start-up activities by refrigerating the value offinancial services through digital inventions.” Inevitable, FinTechsexpects cash exposure, digitally paying payments and contributing to theeconomy of the economy.

This study of commission by Carnage Pakistan prepares aframework for environmental development and prepares a road map for investmentin Pakistan, in which financial vertical components or components (such aspayment, debt, Insurance, etc. An in-depth analysis of the current state of the FinTechecosystem, financial services in Pakistan, potential investment areas andrecommendations for the growth of the FinTech ecosystem in Pakistan as well asthe reduction of risks associated with investments in FinTech startups rangefrom this study. A comprehensive document was therefore prepared, based onprimary market studies involving individual interviews with 57 seniorexecutives and 3, 000 surveys of FinTech professionals, commercial andmicrofinance banks, insurance companies, startups, incubators and mobilefinancial service providers.

and technology. and telecommunications companies. The research has led to a better understanding of the challenges faced byparticipants in the local FinTech ecosystem in harnessing the power of FinTech.

Secondary research focuses on globalprecedence regarding the dynamics of interaction between components of matureFinTech ecosystems, and a review of demography and financial services inPakistan. Applying our knowledge base and expertise to research helps us topredict the growth model of a FinTech ecosystem in Pakistan, as well as aninvestment framework for FinTech’s future-oriented industries. Here is a brief overview of the study foreasy reference: Global Trends on Regulatory andPolicy Support for FinTechsGlobally, two types of regulatory mindsetare observed with FinTech. The one that prevails in mature hubs allowsfinancial institutions to venture into spaces unless explicitly restricted byregulators such as FCA-UK, MAS Singapore and ASIC Australia, while the otherauthorizes activities in areas specifically approved by the regulator.

The regulatory approach promoting FinTechsinvolves working to strike the right balance between control andexperimentation for FinTechs to innovate and evolve through the creation ofInnovation Schemes that identify potential areas of focus, layout funds forsupport and dedicated FinTech wings within a regulatory body. observation, consultation, regulation and authorization of FinTech companies and companies. By using methods of interaction withindustry, regulators gather feedback on whether regulation impedes innovationor nurtures it. They adopt a Sandbox environment to testproducts by limiting exposure and thereby reducing the risks associated withexposure. It allows FinTechs to make their platform available to a limitednumber of consumers and test their ideas within predefined parameters.

The focus is on promoting the use oftechnology to simplify compliance, commonly known as RegTech. FinTech is promoted by politics andregulation. The UK government has announced tax efficiency gains for P2Plenders and introduced requirements for traditional banks to refer smallbusinesses to alternative financing providers if they are unable to lend tothem. Current Regulatory Environment in Pakistan31% of respondents in the Pakistan FinTechsurvey believe that there is regulatory uncertainty regarding financialtechnology products and services in Pakistan. Vertical payment has the most advanced setof regulations with the Payment Service Operator or Payment Service Providerlicenses, but the $ 200 million high capital requirement is a barrier to entryfor small FinTechs . Financial inclusion is a key goal of theState Bank of Pakistan, which has released the branchless banking regulationfor the launch of mobile wallet services and the Asaan

Account regulation thatallows banks to open lower value accounts with a minimum of diligence.

Creating a FinTech FriendlyRegulatory EnvironmentThe necessary infrastructure for DFS wascreated in Pakistan due to progressive regulations such as remote banking andverified SIM cards. The creation of FinTechs is the next natural step. Tocreate an ecosystem that is conducive to financial technology, regulators inPakistan can create a balance between FinTech monitoring and the flexibility toinnovate. This can be done by creating dedicated FinTech wings with mechanismssuch as FinTech consulting services and regulatory sandboxes to reduce the costand compliance time for FinTechs. At the same time, regulators must alsocollaborate with industry participants, both licensees and FinTech, to createfavorable regulations for FinTech. The widespread compliance scenario inPakistan and the emerging FinTech ecosystem suggests that FinTechs working atthe top of the existing financial institutions acting as platforms are morelikely to perform best at this stage.

Large and small commercial and microfinancebanks, insurers and PSO and PSP license holders can all serve as a platform forFinTechs to reduce FinTech’s regulatory burden while providing them with amature compliance environment and reducing the burden of compliance. regulatormonitoring. FinTech Opportunity and Financial Institutionso Banks face many obstacles in realizing FinTech’spotential, including the lack of relevant human resources to take advantage oftechnology opportunities, an organizational structure with product silos, and anarrow focus on key performance indicators that limit business opportunities. future opportunities. o   On the

FinTech side, the most commonly cited challenges include theunfavorable attitude of incumbents to partnerships, a difficult regulatoryenvironment, the difficulty of changing consumer behavior and the lack offunding at an early stage. o Financial institutions need to understand the collaboration potential ofFinTech and develop their ability to work with them. Overall, financialinstitutions are beginning to understand the potential for collaboration withFinTechs to meet customer demands in an increasingly digital and regulatedlandscape. In exchange, FinTechs can provide financial institutions withdifferentiated and value-added products.

o For innovation to take place, the process must be abandoned by banksthat are limited by their organizational design of product silos and inheritedthinking. Banks need to tap into the inner circle of their customers and reallyengage them by building products on the Social, Mobile, Analytics and Cloudmodel – the SMAC stack. The same applies to other holders. Therefore, therecommended course of action for financial institutions is to take the positionof platforms that collaborate with FinTechs by opening APIs and ensuringregulatory compliance. State of the FinTechEcosystem in Pakistano A FinTech ecosystem consists of regulatorybodies, financial institutions, a start-up environment, FinTech startups, andsupporting entities such as infrastructure and identity providers, governmentfunding, and policy support. o Mature hubs are characterized byFinTech-friendly regulations and policies, dedicated incubators andaccelerators, and related activities beyond the major payments and lendingsectors. In addition, a high volume of venture capital operations throughoutthe sector and active participation of the incumbents are mandatory. o Pakistan has a nascent finTech ecosystemcharacterized by gaps in several areas of information that impede allparticipants and hierarchies, an emerging start-up environment with littleFinTech, investments generated solely by local investors, and a lack ofplatform platforms.

collaboration for FinTechs, investors and incumbents. o At present, the most fundamental information gapis a lack of understanding of FinTechs and the value they offer to emergingmarkets. The first step is the creation of FinTech knowledge through workshops, conferences, seminars and the creation and publication of educational contentfor the dissemination of information to FinTech.

o In order for FinTech to be born and prosper, theFinTech ecosystem in Pakistan must evolve from a nascent state to a mature one. Developing the FinTech Ecosystemin PakistanIn order to minimize risk in FinTech investments, theemerging FinTech ecosystem must be developed to support FinTech throughouttheir life cycle, ie launch, launch, commercialization and exit. This support can be extended by creating a ‘ FinTechConnector’ that includes idea generation, selection and incubation setup, testenvironment (sandbox) and investment. These functions are complemented by FinTech’s education, collaboration and consulting functions. The FinTech Ecosystem Growth Model mustbe designed to take advantage of the growth of incubators, investors andFinTech in Pakistan. Thetables below show the FinTech firms/ startups operating currently in Pakistan: As we can see that the number of firms/ startups mentionedabove are just a handful and give us an impression that the FinTech industryand infrastructure in Pakistan is not fully developed and suited for growth ofFinTech companies in the country.

However, another positive impression isformed when we see a well-recognized success by the joint venture of TameerBank and Telenor Pakistan for creating “ Easy Paisa”, a globally recognizedpayment service started and grown in Pakistan.

Overall, the lack of FinTech success in Pakistan is becausethe country is primarily a cash-based economy. There is significant lack ofawareness of the importance of FinTech in Pakistan. 72% of organizations arenot aware of the FinTech(s) present who are looking to collaborate orpartner-up. In order for economy to transform into a cashless society andincrease financial inclusion, new technologies, government programs andcustomer preferences are the main factors facilitating this change. Gaps in Pakistan’s FinTech Market: Globally, FinTech sector is seeing heavy influx ofinvestment every year while Pakistan is still lacking behind. KarandaazPakistan, a company that is promoting financial inclusion through technologyenabled solutions, and FinSurgent, a FinTech start-up that focuses onexploiting emerging technologies in existing business models, conducted asurvey to identify opportunities and the shortcomings of this eco-system inPakistan. Some of the gaps identified by the research are mentioned below: 1. Pakistan has financial inclusion ratio of 15%, compared with an average of 33% for lower-middle-income countries2.

The banking sector accounts for 80% of financialservices but serves only 15% of the population3. 1, 500 IT companies registered in Pakistan andtechnology services exported to other countries close to about $ 1. 6 billion intotal sales, but quality is lesser as compared to service providers from othercountries. 4. Pakistan has low access to ICTs due to lowerpercapita bandwidth and high entry barrier due to prices for fixed broadbandplans5. Pakistan ranks 138th among the 189 countries inthe ease of doing business and has an investment / GDP ratio of 15% compared toa ratio of 32% of other emerging countries6. 12 players in Pakistan have branchless bankinglicenses, none of which have inter-operability between their portfolios orwallet products.

7. Pakistan ranks in the top ten markets forremittances whose solutions are currently provided by the commercial banks. 8. The distribution infrastructure for theMicrofinance industry has a huge improvement potential and can be developedthrough various profitable ventures. 9. In Pakistan, only 29% of women have smartphones, compared to 77% of men.

Challenges: Pakistan’s FinTech industry faces many obstacles, includinglack of support from a large organization, an unfavorable regulatoryenvironment, and so on. A list of challenges identified through aninvestigation are:
1. The non-receptive attitudes of the big players. 2. Unfavorable and complicated regulations inaddition to deficient startup financing.

3. Lack of data security. 4. Difficulties with licensing and access tolicensees. 5. Under-developed mechanism for protectingintellectual property. 6.

Lack of mentorship. 7. Lack of growth phase financing for expansion.
8. Hard to acquire customers9. Getting good talent is hard10. Lessmarket development OpportunitiesWith the 5th youngest population in the world and a growinguse of the Internet and smartphones, the Pakistani market is showing thepotential of adapting to new financial technologies.

Research HighlightsPakistan’s Favorable Factors for FinTech Growth: With Mobile penetration of 69%, Pakistan is fast becoming aneconomy based on mobile phone technology the adoption of smartphones shouldincrease from 16.

6% in 2016 to 51% by 2020Pakistan had only 7. 33 ATMs per 100, 000 people in 2014. However, it can move to the next generation of digital payment infrastructureand bypass the physical payment infrastructure. With 132 million biometrically verified SIM cards, theissuance of portfolios is possible thanks to the click of a button.

Insurancecompanies want to reach customers and make sales via online channels as well ascollect premium payments in digital formatThe e-tail of Pakistan is expected to reach 746 millioneuros in 2019 1. 9 billion by 2024 – a penetration of 2. 3% Pakistan isconsidered almost urban at 73% or urbanized; these areas are physically andelectronically connected and promise a high adoption rate of FinTechRecommendationsThe FinTech industry has huge growth potential in Pakistan. The researchers recommend: 1.

To Provide FinTech coaching required by thestartups. 2. Build FinTech Outreach Programs andCollaboration Platforms, so synergies within the stake holders can be created.

3. Eliminate regulatory ambiguity so that freedomof operation can lower the entry barriers. 4. Need a FinTech consortium which would create adigitally activated infra-structure suitable to breed the FinTech initiatives. 5.

Need Neutral FinTech Incubators so that new startupscan be launched in the market rather than those by the big and establishedbanks or other financial institutions. 6. Digital payment infrastructure, not cash-basedinfrastructure which will lead the transition to the new era of financialproducts and services7. Interoperability of branchless banking will givenew impetus to moving money to digital platforms to boost the growth ofFinTech(s). Pakistan, the sixth largest population in the world, offersFinTech an excellent opportunity to grow and operate and contribute to thecountry’s economic growth and GDP. It is the need of the time not only toinvest and support FinTech coming to the country, but also to create anenvironment conducive to the growth of FinTechs in Pakistan.

Referenceshttps://karandaaz. com. pk/blog/the-fintech-ecosystem-of-pakistan/https://www. techjuice. pk/fintech-in-pakistan-challenges-opportunities-and-recommendations/The report “ Seeding Innovation” by Karandaaz