

Performance Review of Deposit Mobilization

Assessing structure and stability of MFBs' deposits

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State Bank of Pakistan

Agricultural Credit & Microfinance Department

(Development Finance Group)



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Foreword

Recent acceleration in deposit mobilization of microfinance banks (MFBs) has emerged as a vital sign of sustainable future growth of microfinance banking in Pakistan. Deposits have registered a staggering growth of 225%, and increased from Rs 10.3 billion in 2010 to Rs. 33.5 billion in 2013. This growth is attributable to various factors including entry of strong sponsors prompting new business strategies, fresh equity injection, transformational alternative delivery channels, and investments in deposit infrastructure (branches, policies, manuals, staff training etc.). MFBs, however, also face few fundamental constraints i.e. lack of direct access to clearing house membership, limited use of ATM/debit cards, absence of call centre infrastructure, and limited product offering.

While the deposit growth is laudable, there are questions around the quality of the growth. Further, it is important to understand how will this growth momentum be carried in future? In this backdrop, this paper analyzes the composition, cost, and products of MFBs to assess the stability of the current deposits base, and identify steps necessary to improve the quality of deposits. For the purpose of the study, data on various indicators on deposits as of December 31, 2013 was collected from all ten MFBs operating in Pakistan. The key findings/observations emerging from the data are highlighted in the report.

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Key Data Findings

- a. **Top 5 MFBs** have an overwhelming share in the overall deposit base as they constitute 98% of number and 95% of the value of deposits.

- b. **Composition**
 - Deposit accounts - Male (72%), urban (69%), and individual (99%).
 - Deposits value – Male (75%), urban (64%), and individual (75%).

- c. **Less than Rs. 20,000 category:** This category holds 97% of the overall depositors but only 13% of overall value of deposits.
Greater than 1 million category: This category holds only 1% of the number but 49% of overall deposit value.

- d. **Products:** Deposits are 89% in current accounts (with share in value of 25%), 10% in saving accounts (with share in value of 25%), and 1% in fixed accounts (with share in value of 50%).

- e. **Top 50 deposits of Sector:**
 - 70% are fixed deposits accounts with share in value of 64%.
 - 72% are institutional deposits accounts with share in value of 69%.

- f. **Cost:** Annual average interest cost of total deposits is 8% whereas weighted average cost of top 50 deposits is 11%. The maximum interest rate offered on a single deposit (high-value) is 16%. Analysis suggests positive correlation between return on deposits and value of deposits in MFBs.



State of Micro Deposits in Pakistan

After experiencing significant growth in recent years, deposit base of MFBs has now been consistently greater than the gross loan portfolio (GLP) of MFBs. This trend is expected to positively contribute to the evolving self-funding business models of MFBs.

The data as of December 31, 2013 shows that ten MFBs are serving a total of 2.7 million depositors valuing at Rs 33.5 billion. Importantly, top 5 MFBs namely, Khushhali Bank, The FirstMicroFinance Bank, Tameer, NRSP, and FINCA hold major chunk both in terms of number (98%) and value of deposits (95%). Owing largely to the use of alternative delivery channels, Tameer MFB is leading the industry growth both in terms of number (1.6 million, 48%) and value of deposits (Rs 10.6 billion, 32%).

In terms of demography, males and urban depositors constitute major share in number and value of deposits while individual deposits make up significant part of both number and value of deposits. The growth of deposits is expected to further accelerate in future as new/recapitalized MFBs will expand their operations and adopt a deposit-led approach to generate funding.

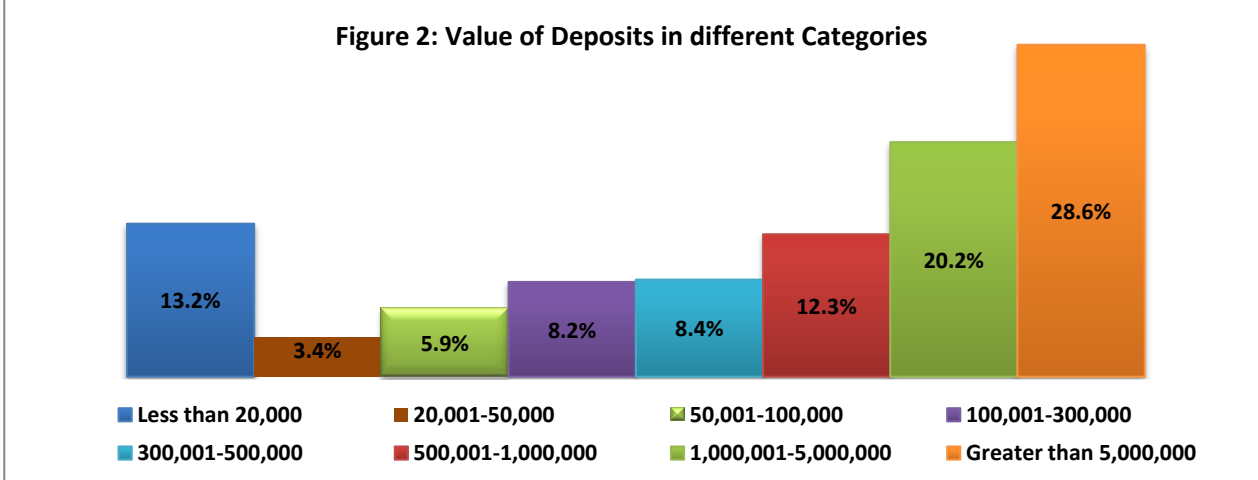
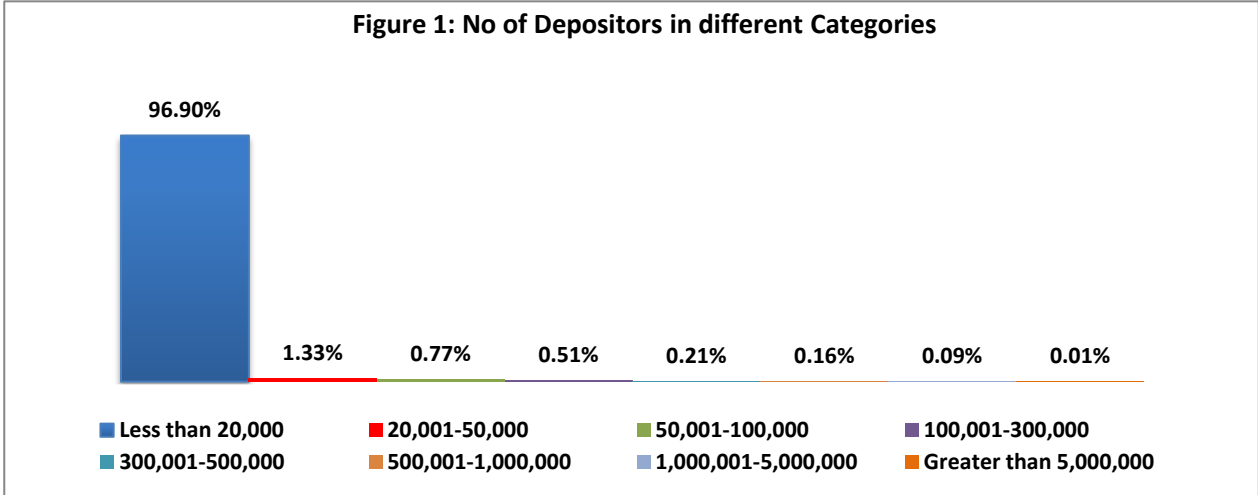
Categorizing Deposit Base of MFBs

For the purpose of the report, the deposit base of MFBs is classified in different buckets categorized by the outstanding balances of the customers' accounts. Data has been segregated into eight different buckets which are *less than Rs. 20,000, Rs. 20,001-50,000, Rs. 50,001-100,000, Rs. 100,001-300,000, Rs. 300,001-500,000, Rs. 500,001-1Mn, Rs. 1Mn to 5Mn, and above Rs. 5Mn.*

Category analysis suggests that the large deposits are driving up the value of deposits. The category 'above Rs 5 million' (highest bucket) constitutes the highest share of 29% in the total



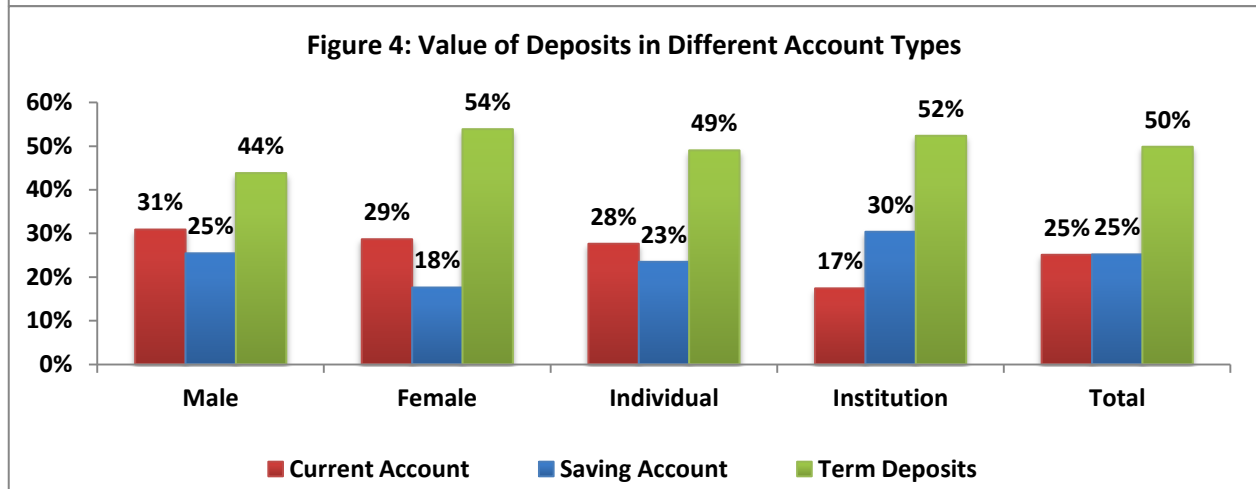
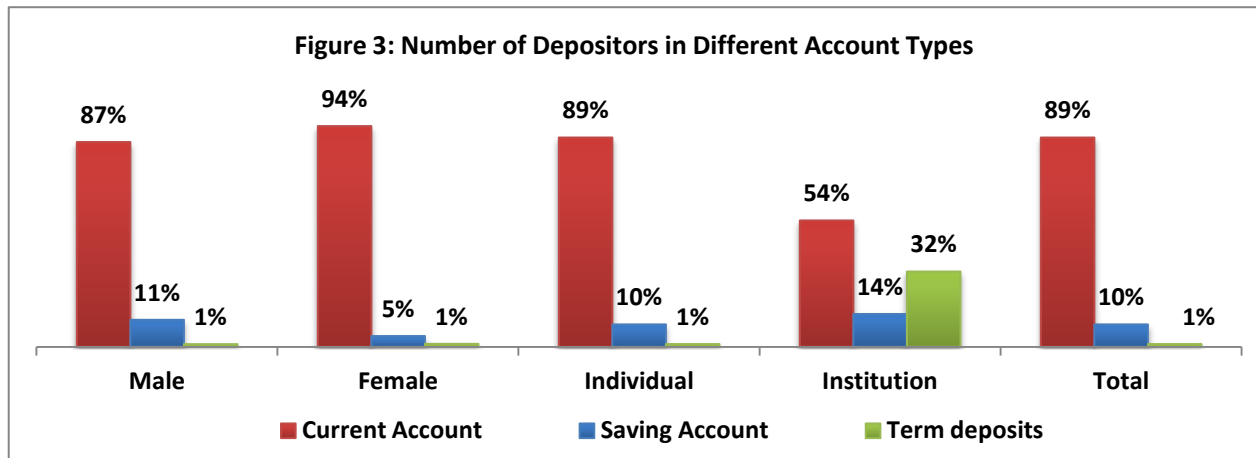
value of deposits while its contribution in the number of accounts is merely .01%. Overall, 49% of the overall value of deposits is coming from the categories greater than Rs. 1 million. Interestingly, 97% of the overall deposit accounts lie in less than 20,000 category (lowest bucket), but their contribution is limited to only 13% of the overall value of deposits.



Types of Account

Current accounts and savings accounts (CASA) represent large majority of number of deposit accounts. The distribution of account type is current account (89%), saving accounts (10%) and fixed accounts (1%). While CASA is 99% of total deposit accounts, its share in deposit value is only 50%. In contrast, 1% fixed account holders hold disproportionately higher aggregate value of 50% of the overall deposits. Top 50 deposits of MFBs hold high share (17%) in overall

deposits of MFBs. These deposits are also tilted towards fixed deposits (70%) and institutional depositors (72%).



Cost of Deposits/Trends in Deposits Rates

The average annual interest cost of deposits is 8% whereas the deposit rate on few high value deposits goes up to 16%. The cost of funds on top 50 deposits is 11%, indicating higher cost incurred by MFBs to attract large depositors away from commercial banks.

High-value and high-return deposits may be construed as quasi-debt to finance short-term loans of MFBs. The other possible motive of such deposits is to bring in new liquidity to meet the anticipated and/or unanticipated gaps in the asset liability position of the MFBs. The highest value of a single deposit is Rs. 400 million.



Since high value and high cost deposits may be volatile, MFBs have to hold more liquid assets to be able to pay-off the liability against such deposit on demand. MFBs should closely monitor their concentration in such deposits, and strive to develop a viable deposit-mix.

Recommendations

Branchless Banking: Mobile banking accounts (m-wallets) are potentially the most important product to provide universal access to formal saving accounts by poor and low income group. As of December 31, 2013, BB players host total 3.4 million m-wallets with a total deposit of Rs 2.6 billion. However, 54% of the m-wallets are inactive. This low adoption indicates the need to add value in the existing product relating to m-wallets.

Therefore, it is imperative for BB industry players to add value to products, expand eco-system for digital payments, and deepen linkages with microfinance and other grass root level organizations. Growth strategy for m-wallets should focus on acquisition of the customers who receive regular flows from sources such as salaries/pensions, local and foreign remittances, social welfare payments etc. Moreover, converting over-the-counter (OTC) customers into m-wallets is a major opportunity for the branchless banking industry.

Innovation and Product development: So far, MFBs have been largely offering stereotype products to their target market. There is a need for developing innovative products on the basis of market research and assessment of customers' experiences with the existing products. The products may contain value-added features such as insurance, remittance, loan etc. to capture interest of target clientele.

Moreover, MFBs need to have a pull-based deposit strategy to lure customers from informal saving mechanisms. This may require new and improved products, intensive brand building, and constant evolution of services. The provision of call center and ATM services could be



critical to help mobilize deposits especially CASA which are generally considered as low cost and stable.

Besides, SBP shall continue its ongoing work on the assessment of MFBs for the access to clearing house membership. SBP shall facilitate MFBs to enhance security and efficiencies of their payment processes. Further, SBP in collaboration with industry players will continue to take steps to promote the use of m-wallets in the country. Finally, SBP will periodically publish industry data key trends/indicators on deposits.

Future Outlook

The deposit growth of MFBs is expected to grow even at a higher rate in the coming years as the new players accelerate their deposit growth especially benefiting from alternative delivery channels. The MFBs are likely to increase investing in their infrastructure and technologies to improve their deposit-mix by increasing the share of CASA in the deposit base.

SBP is particularly keen to promote the use of m-wallets to mobilize micro-savings. By targeting un-served market which is reliant on cash-based transactions, this strategy will bring 'additionality' to banking deposits, reduce the current high currency-in-circulation, and create resources for asset creation in the economy.



Annexure

Table 1: Concentration of deposits in different MFBs

(as of December 31, 2013)

MFBs	Depositors	Value of Deposits (Rs '000')
KBL	674,061	7,132,919
FMFB	263,437	7,814,981
Tameer	1,324,825	10,627,546
NRSP	108,405	3,618,714
FINCA	239,814	2,735,464
PakOman	18,741	28,729
APNA	31,812	762,025
UBank	20,612	205,178
Waseela	66,279	645,369
Advans	2,084	10,563
Total	2,750,070	33,581,488

Table 2: Classification of Number of Depositor

(as of December 31, 2013)

	Gender Classification		Geographic Classification		Individual vs Institution		
	Male	Female	Rural	Urban	Individual	Institution	Total
Less than Rs.20,000	96.5%	97.9%	93.6%	98.2%	96.91%	86.79%	96.90%
Rs. 20,001-50,000	1.5%	0.9%	3.3%	0.5%	1.33%	4.12%	1.33%
Rs. 50,001-100,000	0.9%	0.5%	1.3%	0.6%	0.77%	3.20%	0.77%
Rs. 100,001-300,000	0.6%	0.3%	1.1%	0.3%	0.51%	2.71%	0.51%
Rs. 300,001-500,000	0.2%	0.1%	0.3%	0.2%	0.21%	0.97%	0.21%
Rs. 500,001-1,000,000	0.2%	0.1%	0.2%	0.2%	0.16%	1.02%	0.16%
Rs. 1,000,001-5,000,000	0.1%	0.1%	0.1%	0.1%	0.09%	0.79%	0.09%
Greater than Rs. 5,000,000	0.01%	0.01%	0.01%	0.01%	0.01%	0.40%	0.01%
Total	100%	100%	100%	100%	100%	100%	100%



Table 3: Classification of Value of Deposits

(as of December 31, 2013)

	Gender Classification		Geographic Classification		Individual vs Institution		
	Male	Female	Rural	Urban	Individual	Institution	Total
Less than Rs.20,000	14.2%	22.9%	7.2%	16.8%	17.3%	0.6%	13.2%
Rs. 20,001-50,000	4.3%	3.6%	7.3%	1.7%	4.4%	0.6%	3.4%
Rs. 50,001-100,000	7.4%	5.8%	7.6%	5.1%	7.4%	1.2%	5.9%
Rs. 100,001-300,000	10.5%	6.6%	13.2%	5.5%	10.1%	2.2%	8.2%
Rs. 300,001-500,000	10.5%	8.0%	9.8%	7.9%	10.5%	2.0%	8.4%
Rs. 500,001-1,000,000	14.3%	14.4%	12.2%	12.5%	15.2%	3.5%	12.3%
Rs. 1,000,001-5,000,000	23.5%	20.8%	16.4%	22.5%	23.9%	8.9%	20.2%
Greater than Rs. 5,000,000	15.3%	17.9%	26.2%	28.0%	11.3%	81.0%	28.6%
Total	100%	100%	100%	100%	100%	100%	100%

Table 4: Types of Account (Number of Depositors)

(as of December 31, 2013)

	Male	Female	Individual	Institution	Total
Current Account	87%	94%	89%	54%	89%
Saving Account	11%	5%	10%	14%	10%
Time Deposits	1%	1%	1%	32%	1%
Total	100%	100%	100%	100%	100%

Table 5: Types of Account (Value of Deposits)

(as of December 31, 2013)

	Male	Female	Individual	Institution	Total
Current Account	31%	29%	28%	17%	25%
Saving Account	25%	18%	23%	30%	25%
Time Deposits	44%	54%	49%	52%	50%
Total	100%	100%	100%	100%	100%



Table 6: Cost of Deposits for the Year 2013

MFB	Interest Expense on Deposits	Average Deposits	Cost of Deposits
KBL	422,587	5,259,522	8.0%
FMFB	507,896	6,940,646	7.3%
TMFB	791,414	9,502,478	8.3%
NRSP	186,111	2,455,875	7.6%
FINCA	212,456	2,142,928	9.9%
POMB	332	28,948	1.1%
APNA	52,355	589,038	8.9%
Ubank	1,306	68,801	1.9%
Waseela	11,588	346,741	3.3%
Advans	154	4,485	3.4%
Total	2,186,198	27,339,461	8.0%